

Exploring the alignment between M&A strategies and ESG goals: A study of long-term
value creation

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A research project submitted to the Gordon Institute of Business Science, University of
Pretoria, in partial fulfilment of the requirements for the degree of Master of Business
Administration.

03 November 2025

Abstract

Businesses are encouraged to demonstrate responsible corporate citizenship by considering stakeholders and the environment. Recent studies show an increasing number of companies integrating environmental, social, and governance (ESG) into mergers and acquisitions (M&A) processes as a form of risk mitigation strategy and the creation of sustainable long-term stakeholder value. Nonetheless, this research has not yet been conducted in South Africa, and publicly available information does not identify ESG as a strategy in M&A. Therefore, this study aimed at exploring the main challenges of incorporating ESG factors into the M&A process, focusing on target identification, due diligence, and valuation. The research also aimed to assess how ESG may contribute to stakeholder value creation post-merger.

A qualitative, exploratory research approach was adopted to gain understanding and insights from participants experienced in M&A and ESG investing. Semi-structured interviews were conducted with six M&A practitioners and eleven ESG practitioners. The study identified stakeholder engagement and cost efficiencies as a benefit to ESG integration; however, these are hindered primarily by a lack of standardisation of ESG frameworks and cultural and resource allocation. The study offers a South African perspective, noting legislative nuances such as the B-BBEE Act and the King codes of corporate governance. Future research should explore organisational culture as a barrier to ESG implementation and contextualise the definition of the social pillar.

Keywords

ESG, mergers and acquisitions, sustainable stakeholder value

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Abbreviations

B-BBEE:	Broad-Based Black Economic Empowerment
CARs:	Cumulative Abnormal Returns
CRISA:	Code for Responsible Investment in South Africa
CSR:	Corporate Social Responsibility
DD:	Due Diligence
EBITDA:	Earnings Before Interest, Taxes, Depreciation, and Amortisation
EDD:	Environmental Due Diligence
E&S:	Environmental and Social
ESG:	Environmental, Social, and Governance
EU:	European Union
GDD:	Governance Due Diligence
GDP:	Gross Domestic Product
GEPF:	Government Employee Pension Fund
GHG protocol:	Greenhouse Gas Protocol
GRI:	Global Reporting Initiative
IFC:	International Finance Corporation (Performance Standards)
IFRS:	International Financial Reporting Standards
IR:	Integrated Reporting
JSE:	Johannesburg Stock Exchange
KPIs:	Key Performance Indicators
LBOs:	Leveraged Buyouts
M&A:	Mergers and Acquisitions

MSCI:	MSCI ESG Ratings
PRI:	Principles for Responsible Investment
SASB:	Sustainability Accounting Standards Board
SDD:	Social Due Diligence
SDGs:	Sustainable Development Goals
SMEs:	Small and Medium Enterprises
SPA:	Sale and Purchase Agreement
SRI:	Socially Responsible Investing
TCFD:	Task Force on Climate-related Financial Disclosures
UN:	United Nations
US	United States (implied, used in geographical context)

1. Introduction and Research Problem

1.1 Introduction

This chapter introduces and outlines the importance of Mergers and Acquisitions (M&A) as a significant driver for growth, while emphasising the integration of Environmental, Social, and Governance (ESG) factors as both a risk mitigation strategy and a mechanism for stakeholder value creation post integration. The study explored the challenges experienced in integrating ESG into the M&A process and evaluated the impact of ESG on post-merger value creation for stakeholders. The introduction details the research scope, outlines the relevant theoretical and business problems, and highlights the contribution this research makes to both academia and practical business applications.

1.2 Background

Since the introduction of M&A in 1895, it has been incorporated as an inorganic growth strategy in corporate strategy (Jain et al., 2019). As an inorganic strategy, M&A activity enables companies to expand their presence, leverage synergies, and diversify product offerings (Jain et al., 2019). Faced with a complex competitive landscape, companies are considering a fast-track growth strategy to gain a competitive advantage and generate growth for shareholders (King et al., 2020). Angwin et al. (2022) highlighted that M&A is not just a growth tactic but has since evolved to a core element of corporate strategy. This strategy facilitates cross-border expansion into emerging markets, enabling companies to compete on a global scale (Lebedev et al., 2015). M&A transactions reached \$2 trillion in 2018 (Junni & Teerikangas, 2019) and have since continued to grow to \$2.1 trillion in 2023 and \$2.4 trillion in 2024, according to S&P Global. The growth in M&A reached the African continent, with a 253% increase in transaction value in the fourth quarter of 2024 at \$4.4 billion compared to the third quarter of 2023 (M&A Insights, 2025).

Although M&A offers a fast-track growth strategy, it is typically costly and riskier than organic growth (Chininga et al., 2024). Angwin et al. (2022) observed that a significant amount of M&A research indicates that deals often fail, regardless of industry. Furthermore, King et al. (2020) highlighted that in the short term, value generated for shareholders can be measured, while in the long term, this value is difficult to measure. Junni & Teerikangas (2019) attribute the

high failure rates to undefined strategic rationale for the acquisition, inadequate target selection, unrealistic synergy expectations, and unjustifiable high target valuation. Hassan et al. (2018) further observed that the lack of attention to these elements can result in a costly integration process.

Historically, M&A research outlined financial and operational synergy creation as the primary rationale for entering M&A activities with an aim to increase shareholder wealth (Maran & Parker, 2019). However, the field of strategic management acknowledges that M&A activities are driven by more than mere financial objectives (Angwin et al., 2022). Scholars recently identified a shift in M&A incorporating stakeholders and sustainability objectives (Junni & Teerikangas, 2019).

Feldman & Hernandez (2021) highlighted a shift beyond market power focus, to relational synergies, identifying the influence of internal and external stakeholders in M&A success. Acquirers must communicate effectively with stakeholders throughout the M&A process to build trust and maintain their reputation (Freeman et al., 2020). Mensah et al. (2022) observed that stakeholder neglect is likely to result in customer attrition post-merger, and in more severe cases, the public boycotting the company's products (Garcia et al., 2017). Stakeholder theory enables the acquirer to ensure that stakeholder engagement is managed throughout the process to mitigate against risks (Elamer & Boulhaga, 2024).

Research highlights a shift towards incorporating sustainability factors in M&A, such as Corporate Social Responsibility (CSR) and ESG (Apergis et al., 2022). Gomes (2019) notes an increase in acquiring companies seeking target firms with high CSR scores, as these companies are seen as less risky than their counterparts. An example to illustrate this point by Feldman & Hernandez (2021) is Unilever's acquisition of Ben Jerry's ice cream maker. Unilever's position was to signal its intent to embrace CSR. Liu et al. (2022) highlighted that between 2019 and 2021, Korean companies' M&A activities were in clean energy as the global world was shifting towards net zero. Martiny et al. (2024) added that ESG performance is increasingly recognised as an indicator of risk management and long-term value creation.

South Africa is a developing economy characterised by high levels of unemployment, poverty, and inequality (Nel et al., 2025). In 1994, after the country held its first democratic elections, the Broad-Based Black Economic Empowerment (B-BBEE) framework was introduced to

address the social, political and economic disparities as a result of apartheid (Krüger, 2014). B-BBEE is an intervention by the government aimed at social justice; companies are required to implement it (Nel et al., 2025). In recent years, B-BBEE has come under scrutiny, specifically the ownership element of the scorecard and its impact on cross-border M&A transactions (Robinson et al., 2020).

Although B-BBEE presents certain challenges, the country is recognised as a pioneer in corporate governance through the King IV report on Corporate Governance (Robinson et al., 2020). Unlike many international codes with a narrow perspective on stakeholders, King IV advocates for stakeholder inclusion rooted in the principle of Ubuntu (“I am because we are”) (Rossouw, 2019). Compliance with King IV is only mandatory for companies listed on the JSE (Nel et al., 2025). However, data from Old Mutual in 2023 indicates a trend of delisting, noting over 600 companies listed in 2000 compared to 301 in the first quarter of 2023. The country’s governance ecosystem promotes responsible investment through the Code for Responsible Investment in South Africa (CRISA), launched in 2011. The launch of CRISA was facilitated by the Government Employee Pension Fund (GEPF), the largest pension fund in South Africa (CRISA, 2022). The GEPF is also a signatory to the United Nations Principles for Responsible Investment, encouraging investment managers to integrate ESG in investment decisions (GEPF, 2025).

The end of apartheid brought changes to South Africa’s economy, notably an increase in cross-border M&A facilitated by foreign direct investment (de Villiers et al., 2019). Since 1991, South Africa has recorded over 11,940 transactions valued at \$658 billion, depicted in Figure 1. In 2024, South Africa experienced an 11.6% increase in M&A activity compared to 2023 (Chambers & Partners, 2025). Despite its size, South Africa is a regional M&A hub as the country accounted for 60% of deal value and more than 30% of deal volume in Africa (Herbert Smith Freehills, 2025). According to BCG (2024), South Africa led the continent with 118 deals concluded and recorded the continent’s largest transaction at \$3.5 billion.

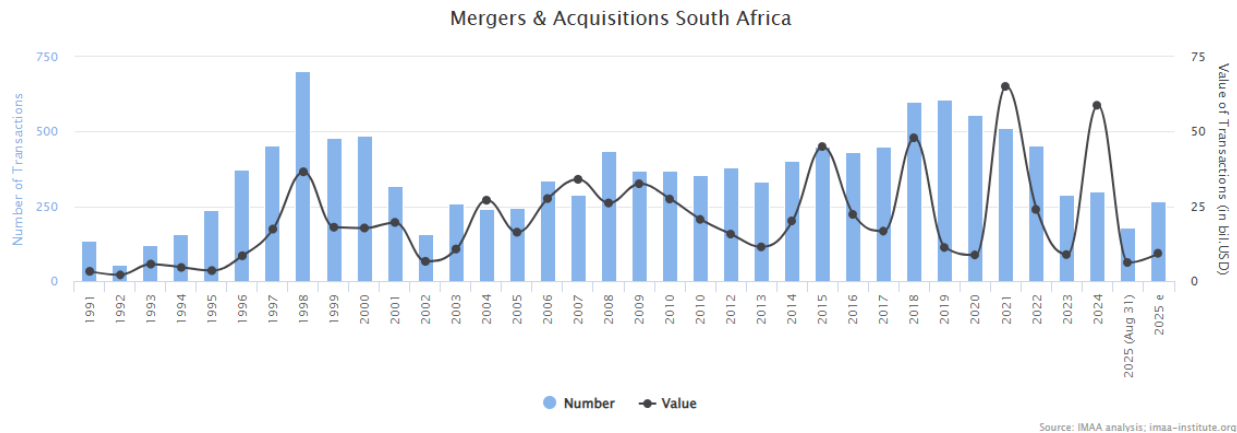


Figure 1: M&A South Africa for the Period 1991 to 2025 (M&A Statistics by Countries, 2024)

Since the introduction of CRISA, Cole (2023) noted an increase in ESG-driven M&A activity in the mining and energy sectors. In 2024, EY conducted a survey and identified ESG factors as a significant risk to mining companies globally. South Africa is heavily reliant on the mining sector, which contributed R203.8 billion or 6.9% to GDP in 2024 (Trading Economics, 2023). The mining industry has implemented several changes to address the environmental aspect of ESG, aligning with the global transition (Cole, 2023). In 2021, Anglo American's transition from thermal coal resulted in the mining giant's demerger of its shareholding in Thungela Resources Limited, realising proceeds of R1.6 billion (Anglo American, 2022). Another significant M&A transaction is the 51% acquisition by Seriti Resources of Windlab Africa in 2022 for R0.8 billion, to lower its carbon footprint (Seriti Resources, 2022).

ESG applies to all sectors beyond mining and energy. While ESG integration is gaining traction, a review of the top five M&A deals by value revealed that publicly available information often lacks explicit details on the extent to which ESG factors were formally incorporated into the due diligence and valuation of large-scale M&A deals, such as the acquisition of SABMiller by Anheuser-Busch InBev valued at \$107 billion (Reuters, 2016) or Mediclinic International by MSC Mediterranean Shipping at \$2.6 billion (KPMG, 2023). This highlights a potential gap in accessible data or reporting regarding ESG integration in prominent transactions.

Despite the adoption and implementation of ESG being slower in emerging economies, M&A presents an opportunity to embed ESG principles and address some of the socio-economic and environmental issues faced by these countries (Martiny et al., 2024). This section directly

informs the unique social, regulatory, and economic conditions contributing to M&A in South Africa.

1.3 Research Problem

Companies engage in M&A activities as a seemingly fast growth strategy, despite the costs associated with it (Chininga et al., 2024). This means that acquirers not only invest money, but time to find an appropriate target, perform due diligence and integrate, with the hope of value generation for stakeholders (Angwin et al., 2022). However, M&A transactions are associated with high failure rates (Angwin et al., 2022) and often fail to deliver on the envisioned value generation (Junni & Teerikangas, 2019). Chen et al. (2019) highlighted the focus of traditional literature, focusing on the investment decision with an aim to understand the activities that drive shareholder wealth.

In recent years, companies have adopted CSR practices, encompassing ESG as a risk mitigation tool in their target identification, due diligence process, and post-merger integration (Gomes, 2019). Literature supports that the incorporation of ESG in M&A not only reduces risk but also improves deal success and financial performance (Zheng et al., 2023). This shift demonstrates the growing importance of sustainable considerations for stakeholders. Feyisetan et al. (2025) further added that fundamentally, ESG factors are rooted in stakeholder theory, which is concerned with the interconnectedness of internal and external stakeholders. By incorporating ESG factors in the M&A process, the target can ensure that stakeholder needs are considered and ensure a smooth post-merger integration.

Despite the opportunities offered by ESG, a key barrier highlighted by Galpin & De Vibe (2024) is the lack of standardisation and data quality. Making it difficult for M&A advisors to navigate the myriad of standards and benchmarking tools offered by ratings agencies (Fan et al., 2022). Galpin & De Vibe (2024) further added that the lack of clarity in ESG metrics may result in challenges when incorporating ESG findings into target valuation. However, Wang et al. (2021) cautioned that ignoring CSR/ESG can result in reputational damage and costly mistakes. This notion was supported by Galpin & De Vibe (2024), who highlights that inadequate environmental due diligence can expose the acquirer to legal liabilities.

Research on ESG often focuses on reporting and disclosure frameworks with an aim of defining and measuring the company's efforts (Behl et al., 2021). Galpin & De Vibe (2024) further added that the research also focuses on the relationship between ESG performance and financial performance and ESG growth in asset investment (Del Gesso & Lodhi, 2025). The lack of research on the incorporation of ESG in M&A is limited. Arouri et al. (2019) highlighted that M&A offers an appropriate context to better understand the impact of CSR/ESG. The study seeks to address the identified gap in understanding the challenges of practically incorporating ESG in the M&A process in emerging economies (Feyisetan et al., 2025).

1.4 The Aim and Scope of Research

M&A functions as a frequently used inorganic growth strategy, allowing companies to gain a competitive advantage and generate growth for shareholders (Angwin et al., 2022). Studies, however, show a shift from a shareholder focus to incorporate stakeholders and ESG factors (Junni & Teerikangas, 2019). This shift prioritises relational synergies, moving away from pure profit maximisation to stakeholder considerations (Zhong et al, 2022). Despite the opportunities offered by ESG, there is a lack of research on the incorporation of ESG factors in M&A, specifically in emerging economies (Feyisetan et al., 2025).

South Africa is regarded as the M&A hub of Africa; however, the country is marked by high levels of inequality, environmental, and governance conditions that impact M&A. Unlike other emerging economies, the country's landscape is influenced by mandatory social legislation such as the B-BBEE framework and King IV corporate governance code, advocating for stakeholder inclusion. Given the unique context of South Africa, this research was critical in establishing how ESG frameworks and standards accommodate the country's legislation. This study aimed to provide a practical understanding of the challenges experienced by M&A advisors and Corporate Development Managers in integrating ESG goals into the M&A process, to leverage ESG factors as a tool to mitigate against risk and create long-term sustainable value for stakeholders.

2. Literature Review

2.1 Historical Context of Mergers and Acquisitions (M&A)

M&A roots can be traced back to the 19th century in the United States (US), and M&A has since been incorporated as an inorganic growth strategy (Junni & Teerikangas, 2019). M&A serves as a strategic alliance for businesses and is widely regarded as the most popular means of corporate restructuring or business consolidation, functioning as a strategic vehicle for expansion, improved performance, and growth (Hossain, 2021). Although the terms mergers and acquisitions are combined, the definition can be separated (Junni & Teerikangas, 2019). An acquisition involves one company (the “acquirer”) purchasing another entity (the “target”); this transaction may involve either a majority (over 50%) or minority shareholding (Malik et al., 2014). On the contrary, a merger entails the consolidation of two or more companies into a single entity (Hossain, 2021). M&A also encompasses the disposal and combination of companies; although not explicitly mentioned in the name, it falls within the definition (Feyisetan et al., 2025).

According to Zeynep Ançel İlaslan & Başak Tanyeri-Günsür (2023), the first M&A wave took place between 1895 to 1905. This wave of M&A saw half of the US manufacturing companies merge, driven by industrial growth and rising stock prices. Khan & Zia (2019) added that more than 1,800 of these firms merged to form larger and powerful companies. While this wave created powerful companies, Nelson (1975) noted that the downside of this wave was the creation of monopolies, which led to the US government developing antitrust laws.

The second M&A wave took place in the 1920s as a result of small firms merging to compete with larger companies (Zeynep Ançel İlaslan & Başak Tanyeri-Günsür, 2023). This wave led to the creation of oligopolies (Nelson, 1975). Unlike previous waves, the third M&A wave in the 1960s saw companies in different industries merging to form conglomerates driven by antitrust laws (Zeynep Ançel İlaslan & Başak Tanyeri-Günsür, 2023). The fourth M&A wave in the 1980s was facilitated by deregulation and changes in antitrust laws (Zeynep Ançel İlaslan & Başak Tanyeri-Günsür, 2023). During this wave, investment banks and law firms helped to legitimise M&A as a growth strategic alternative.

The fifth wave, which took place in the 1990’s saw transactions involving strategic global partners, driven by globalisation (Zeynep Ançel İlaslan & Başak Tanyeri-Günsür, 2023). The sixth wave between 2003 to 2007 was facilitated by private equity firms due to abundant

liquidity following the dot-com bubble (Zeynep Ançel İlaslan & Başak Tanyeri-Günsür, 2023). The seventh and last wave began after the financial crisis in 2009, which was slowed down by COVID-19 (Galpin, 2021). The waves differed in terms of geographic location, financing source, deal style, and acquisition strategy; however, they were similar in that they often took place during economic recovery and stock market booms and slowed during market crashes (Thanos et al., 2020).

2.2 Types of M&A Activities

The first wave led to horizontal consolidation. Durmaz et al. (2015) define this type of M&A as the combination of companies that compete in the same industry, allowing the acquirer to exploit complementary resources. The benefit of this type of M&A strategy is that the target can take advantage of economies of scale. Palm et al. (2023) noted that companies engaging in horizontal M&A have the strongest performance, which is largely attributed to less integration required to achieve market influence.

The second wave saw the creation of a vertical merger, defined as when a company merges with companies in its value chain, these would be suppliers or distributors (Durmaz et al., 2015). The benefit of vertical M&A is that the acquirer gains an advantage through buying or pricing (Feldman & Hernandez, 2021). Despite the benefit, this type of merger requires more integration compared to a horizontal M&A (Palm et al., 2023). The third wave led to a conglomerate merger; this type of merger takes place when companies in different industries merge (Durmaz et al., 2015). This type of merger exposes the acquirer to increased risk due to greater information asymmetry (Tanna & Yousef, 2019). Palm et al. (2023) further added that this type of merger is often associated with lower performance post-merger in comparison to horizontal and vertical mergers.

Khan & Zia (2019) noted that the fourth wave was characterised by co-generic mergers, hostile takeovers, and corporate raiding. Mensah et al. (2022) define a hostile takeover as the acquisition of one organisation by another, where the acquirer assumes control of the target. Although the term is hostile takeovers, such takeovers can be friendly. In contrast, in corporate raiding, the acquirer dismantles the target for profit (Mensah et al., 2022). During a corporate raid, the acquirer intends to resell the target piecemeal, restructuring, or closing non-profitable parts of the company (Liu et al., 2022). Co-generic mergers refer to the

combination of similar companies or complementary business segments (Mensah et al., 2022).

When considering the best M&A activity, Angwin et al. (2022) pointed out that there is no single best way to conduct an M&A transaction, as the transaction is dependent on the acquirer's strategy and motive.

2.3 Mergers and Acquisition Motives

The primary objective for companies engaging in M&A is to maximise shareholder value and achieve optimal profitability (Malik et al., 2014). Despite the high failure rates, companies believe that M&A is a performance enhancing strategy (Angwin et al., 2022). Vinocur et al. (2022) attribute the high failure to the challenges of predicting, understanding M&A, and the inability to predict long-term performance. Angwin et al. (2022) added that, in order for the merger to achieve the intended goal of synergies must be present.

2.3.1 Synergies

Synergy is a commonly used concept that highlights the value created by M&A through the combination of two or more companies that are more valuable together compared to individually (Feldman & Hernandez, 2021). Bauer & Friesl (2022) noted that synergies are usually illustrated by “two plus two equals five” and often justify a premium paid for the target. While synergy may seem simple, Bauer & Friesl (2022) highlighted that there is a lack of common understanding. The lack of understanding can be attributed to the fact that synergy is not just a sum of individual types but also incorporates how these parts interact (Feldman & Hernandez, 2021). The parts are often defined before target identification and include internal synergies, market power synergies, relational synergies, network synergies, and non-market synergies (Rani et al., 2020). Vinocur et al. (2022) added that synergy motives in M&A are strategic in nature and often linked to wealth creation. In contrast, Feldman & Hernandez (2021) found that the most common synergy in M&A is internal operational efficiency improvement.

While the acquirer may define synergies before identifying the target, it is important to note that the role of external actors like customers and suppliers can influence outcomes in ways

that are not anticipated (Holtström & Anderson, 2021). Feldman & Hernandez (2021) refer to these as relational synergies and assert that they are an integral part of a business network. Depending on the type of acquisition (horizontal or vertical), the acquisition can result in increased bargaining power of suppliers. Holtström & Anderson (2021) added that the merging companies can also benefit from increasing purchasing quantities, possibly leading to lowered costs, if managed properly. Mensah et al. (2022) warned of the possible negative reaction from customers to new brands post M&A; to mitigate against this, the target needs to communicate effectively to retain customers post M&A.

The timeframe for realising synergies often varies based on the type of synergy involved. Short-term synergies, such as cumulative abnormal returns (CAR), can be realised within five days (Duan & Jin, 2018). While long-term synergy realisation can span for two to three years post-merger (Rani et al., 2020). Although the anticipation for synergy realisation may be short-term to long-term, cost benefits are typically realised approximately 18 months post-merger, while profitability realisation generally emerges one year to two years post-merger.

2.3.2 Market Power

The pursuit of market power through M&A can be traced to the first wave (Feldman & Hernandez, 2021). One primary method for companies to acquire market power is through the acquisition of rivals, thereby reducing competition, increasing market share, and achieving strategic fit through horizontal or vertical integration (Palm et al., 2023). Horizontal integration allows the acquirer to concentrate on market consolidation and drive efficiencies through optimisation (Durmaz et al., 2015). Furthermore, companies can gain market power through repeated acquisitions, enabling them to extract value from customers by better controlling product price (Junni & Teerikangas, 2019).

Another way market power can be reached is through price influence and bargaining with suppliers to weaken competition; this can be achieved through vertical integration (Tanna & Yousef, 2019). Vertical integration allows the acquirer to expand their upstream or downstream or take over control of the distribution channel, thereby dominating the market (Durmaz et al., 2015). By entering new markets and geographies or diversifying into a new product or service (Angwin et al., 2022), the acquirer pursues strategic fit with the target (Tanna & Yousef, 2019). While M&A strategies provide a faster route for the company to

achieve its growth targets, they often entail substantial costs, and their overall success remains uncertain (Agnihotri, 2014). Nevertheless, M&A is often regarded as a way for the acquirer to also build new capabilities and competence, which can be in the form of acquiring new technology (Angwin et al., 2022).

2.3.3 Financial Motives

Angwin et al. (2022) identified profit and shareholder value maximisation as a driver of M&A. Rani et al. (2020) noted that financial synergy between the acquirer and target must be present for the value to be realised, describing financial synergies as the value gained from combining the financial structures of the acquirer and the target. According to David (2024), post-merger financial synergies can be achieved through diversification of cash flows, reallocation of resources, exploring possible tax savings, and gaining access to internal capital. M&A can also serve as a means for companies to solve their financial problems, often referred to as a liquidity merger (Duan & Jin, 2018). For example, an acquirer can provide capital to a target that is struggling to execute projects, and the combined capital the target can generate financial improvement through the combination of both entities (Duan & Jin, 2018).

The measurement of M&A deals is often evaluated using financial metrics. According to Rask (2024), when identifying an acquisition or merger target, the indicators most companies look for are financial indicators; these are companies that can demonstrate profitability. This is in line with the appeal for the transaction to yield significant financial returns for shareholders (Chari, 2008).

2.3.4 Management Motives

Management self-interest is identified as one of the motives behind companies engaging in M&A transactions and can be categorised within the agency theory and hubris hypothesis contexts (Vinocur et al., 2022). These theories analyse management behaviour with regard to personal benefit (Angwin et al., 2022). Agency theory suggests an agency problem may arise when there is a separation of ownership between management and shareholders, potentially resulting in management acting as bad agents at the detriment of the company

and, in turn, its shareholders (Vinocur et al., 2022; Angwin et al., 2022). Renneboog & Vansteenkiste (2019) note that agency conflict between management and shareholders often explains poor M&A performance. However, Vinocur et al. (2022) contended that management's pursuit of maximisation of profits can support shareholder value maximisation.

While the hubris hypothesis argues that M&A activity may be driven by psychological flaws of management, this at times, is referred to as narcissism (Angwin et al., 2022). Rani et al. (2020) highlighted that hubris occurs when overconfidence in management leads to the acquirer paying a premium exceeding the market value of the target. This may be influenced by dominant personalities who can push for the deal to further their own agenda, which might not be in the best interest of the shareholders (Maran & Parker, 2019). M&A driven by hubris often results in negative shareholder value, consequently poor post-merger performance and high failure rates (Angwin et al., 2022).

To minimise exposure, it is important for the board of directors to closely monitor executives' decisions on behalf of shareholders (Vinocur et al., 2022). Another mitigation is the alignment of management incentives with shareholder value and maintaining board oversight during the M&A process (Angwin et al., 2022). Vinocur et al. (2022) attribute the development of M&A capabilities to serial acquirers through deliberate learning.

2.4 The M&A Process

The M&A process is inherently complex and involves a series of interconnected phases (Thanos et al., 2020). These can be categorised as pre-deal, in-deal, and post-deal phases (Junni & Teerikangas, 2019). While an acquirer engaging in M&A aims to generate value, the process is often susceptible to a high failure rate (Angwin et al., 2022). Given these challenges, the acquirer must integrate these phases and have a holistic process perspective (Hassan et al., 2018).

2.4.1 Pre-deal Phase

The pre-deal phase involves acquisition planning, candidate search, target valuation, due diligence, negotiation, deal structuring, and closing the deal (Junni & Teerikangas, 2019).

Angwin et al. (2022) separated the acquirer's consideration to micro-level, meso-level and macro-level. At a macro level, analysis often focuses on the broader environment, typically relating to macroeconomic conditions and the target specific characteristics (Angwin et al., 2022; Fuad & Venugopal, 2023). At this level, institutional theory is often applied to understand the structures, norms, and routines (Fuad & Venugopal, 2023).

The meso-level relates to the acquiring firm's strategy and the target specific factors (Angwin et al., 2022). The acquirers' motives can either be exploratory, aiming to strengthen existing operations, improve efficiency, or diversify revenue streams, or exploratory, seeking to expand to new markets, or diversify product offering. At this level, the target's strategy before an M&A is defined to assist in evaluating whether the target satisfies the necessary criteria and facilitates post-merger tracking (Richey et al., 2008). The strategy can specify the financial and non-financial criteria of the target, synergies, and alignment of resources (Angwin et al., 2022; Junni & Teerikangas, 2019).

Once the target is identified, the acquirer conducts due diligence to appraise the target and assess risks and opportunities (Bauer & Friesl, 2022). Embarking on due diligence will enable the acquirer to assess financial and non-financial aspects of the target, assess risk in line with the acquirer's appetite (Angwin et al., 2022). Fuad & Venugopal (2023) highlighted the challenge of information asymmetry and potential legitimacy issues during the due diligence process, which may also arise due to ambiguity and lack of transparency perceived by stakeholders. To mitigate the risk, the acquirer enlists the skillset of specialists to critically assess financial and non-financial risks (Angwin et al., 2022). Thanos et al. (2020) observed that acquirers who pay less attention to due diligence pay high premiums and reduce successful deal closure. This notion was supported by (Mirc et al., 2023), who highlighted that if the due diligence process is rushed, it may result in problems during post-merger integration. Following the completion of a due diligence, the acquirer will adjust the valuation of the target using benchmarking tools; through this process, the acquirer will assess the premium or discount to be paid (Bauer & Friesl, 2022). This process is often outsourcing to financial advisors, hired by both the acquirer and the target (Malhotra et al., 2014).

The micro-level examines management and considers the psychological and human attributes that influence M&A performance (Angwin et al., 2022). These attributes are often examined through hubris, narcissism, prior work experience, and competencies (Vinocur et

al., 2022). Evaluating the attributes of top management can help to define the reasons for embarking on an M&A transaction, and if these are driven by hubris or narcissism, the target can pause from pursuing the transaction (Fuad & Venugopal, 2023). Fuad & Venugopal (2023) attributed the top management's prior experience in conducting M&A as an indicator of deal completion.

Although the macro, meso and micro levels are distinct, they are interdependent and require the target to pay attention to these to achieve strategic fit and compatibility across these levels (Angwin et al., 2022). Thanos et al. (2020) found that acquirer firms who conduct their planning during non-wave periods tend to be more conservative as they have time to investigate a suitable target. Planning enables the acquirer to assess the strategic and resource fit of the target and take advantage of opportunities post-acquisition (Angwin et al., 2022). In contrast, during wave periods, acquirers are less attentive to details and their acquisition might not be driven by rational analysis of the target (Thanos et al., 2020). Decisions made during this phase will impact the post-acquisition stages (Thanos et al., 2020).

The pre-deal phase is often private and ends with a public announcement of the deal (Fuad & Venugopal, 2023).

2.4.2 In-Deal Phase/ Deal Completion

The in-deal phase involves deal structuring, pricing and affordability (Junni & Teerikangas, 2019). Fuad & Venugopal (2023) note that this phase includes public takeover and renegotiating, and obtaining the necessary approvals from antitrust bodies. If the acquirer comes to new information not previously uncovered during the pre-deal phase, a further due diligence may be initiated (Angwin et al., 2022; Fuad & Venugopal, 2023). Should an agreement not be reached or the due diligence uncovers additional risk, the acquirer can withdraw from the deal (Fuad & Venugopal, 2023). Deal abandonment may result in adverse market reaction; this needs to be handled appropriately to mitigate against reputational damage (Fuad & Venugopal, 2023).

The type of payment used in a transaction is often informed by the type of transaction the acquirer is entering, which can be in the form of an acquisition or a merger (Mensah et al.,

2022). Other structures exist beyond a standalone acquisition; these include earnouts, leverage buyouts, and carve-outs (Dahlen et al., 2023). Payment methods can be cash-only or mixed payment deals (Büssgen & Stargardt, 2024). Debt and leverage buyouts (LBOs) financing mechanisms were dominant during the second and fourth M&A waves (Malik et al., 2014).

As a risk mitigation strategy, the acquirer can use an earn out method, this means that the deal value is contingent on the target reaching an agreed revenue or other metrics; this can be incorporated if the acquirer is uncertain about future cash flows (Angwin et al., 2022). Fuad & Venugopal (2023) note that if there is uncertainty regarding the value of the target, the acquirer usually pays in equity rather than cash to tie the target shareholders to share in future post-acquisition valuations. This method, however, is found to result in a lower likelihood of deal completion (Fuad & Venugopal, 2023).

2.4.3 Post-deal Phase

The post-deal phase can only take place once the pre-deal process is finalised, this process includes the integration of operations and culture (Junni & Teerikangas, 2019). According to Angwin et al. (2022), between 50% and 75% of M&A deals fail, the failure is largely attributed to poor integration or cultural issues. The objective of this phase is synergy realisation where the envisioned objectives during the pre-deal phase are realised (Mirc et al., 2023).

Research places a critical role in cultural fit, the premise that acquisition success can be realised if cultural fit and integration is given attention (Feldman & Hernandez, 2021). Effectively managing the transition involves aligning the target firm employee's way of thinking to fit the acquirer to manage culture shock and alienation (Mensah et al., 2022). Additionally, fostering a shared identity can help to reduce resistance (Liang et al., 2021). This phase also includes operational alignment, combining technical and functional aspects of the companies (Feldman & Hernandez, 2021). Furthermore, it is important for an acquirer to consider external stakeholders during the integration to strengthen relational synergies (Angwin et al., 2022).

2.5 Measuring M&A Success

Measuring M&A performance remains a challenge in the fields of strategic management, finance, and economics (Angwin et al., 2022). This challenge stems from the absence of a single factor that captures all objectives, and subjective dimensions, and factoring in the variation in measurement timeframe, such as short-term and long-term objectives (Angwin et al., 2022). Furthermore, M&A outcomes can be intangible, making measurement difficult (Hassan et al., 2018). Angwin et al. (2022) identified three methods to evaluate M&A success.

2.5.1 Market-Based Measures

This is a short-term M&A measure to assess the market's perception of the deal announcement, typically reflected in the stock market performance before and post-deal announcement, measured as a cumulative abnormal return (CARs) (Angwin et al., 2022). The short-term financial performance is assessed over a five-day period (Thanos et al., 2020). According to Vinocur et al. (2022), target shareholders generally benefit from the deal announcement largely as a result of the premium paid by the acquirer, while the acquirer shareholders' gains may be insignificant or negative (Thanos et al., 2020). Angwin et al. (2022) note that market-based approaches are limited to a short-term outlook and may not necessarily translate to shareholder wealth in the long term. Given the limitations of CARs, the use of accounting-based measures is recommended to capture long-term assessment of M&A (Angwin et al., 2022).

2.5.2 Accounting-Based Measures

Accounting-based measures are used to assess the realisation of synergies post-merger over the medium and long term (Vinocur et al., 2022). Profitability and efficiency can be assessed by calculating the return on assets and return on equity pre-acquisition and post-acquisition to assess the target's performance (Rani et al., 2020). Operational metrics can also be assessed; these can include revenue and earnings before interest, taxes, depreciation, and amortisation (EBITDA) (Palm et al., 2023). In addition to accounting-based measures, the acquirer can assess industry specific metrics pre- and post-merger to assess growth or decline (Büssgen & Stargardt, 2024). Finance researchers are often criticised for focusing on

short-term market profitability, whereas strategic analysis captures the holistic success of M&A through the inclusion of non-financial measures (Vinocur et al., 2022).

2.5.3 Strategic and non-financial measures

Traditional M&A performance measures relied heavily on financial metrics, such as CARs and accounting-based measures (Thanos et al., 2020). Integrating strategic and non-financial measures in the pre-deal phase allows the acquirer to assess performance post-deal (Fuad & Venugopal, 2023). This approach encompasses strategic fit, complementary of resources and capabilities (Palm et al., 2023). Bauer & Friesl (2022) highlighted that managerial attention during the M&A process tends to favour quantifiable synergies. Mensah et al. (2022) asserts that successful integration relies on managing human factors, quantifiable synergies, and non-financial measures. (Vinocur et al., 2022) observe the difficulty in measuring nonfinancial factors. According to Gomes (2019), ESG attributes have emerged as a measurable nonfinancial metrics and are a good risk management tool for acquirers.

2.6 Environmental, Social, and Governance in Business and Finance

2.6.1 The History and Evolution of Environmental, Social, and Governance

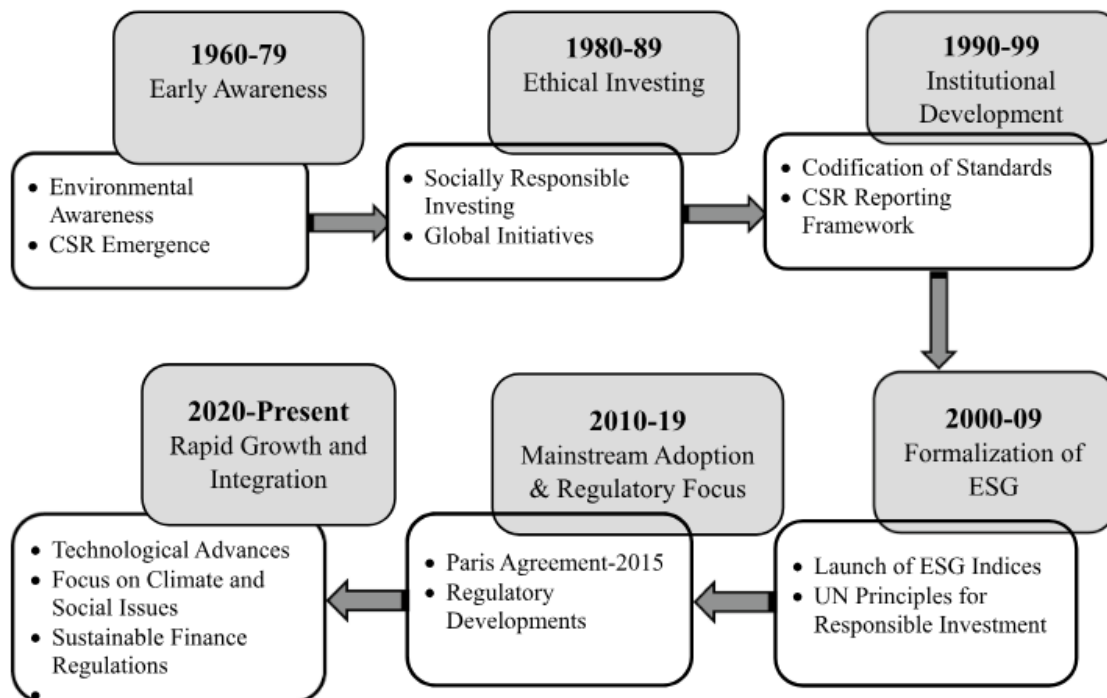


Figure 2: Evolution of the ESG framework (Khan et al., 2024)

ESG is an acronym for Environmental, Social, and Governance, which represent factors measuring the sustainability of a company (Rossi et al., 2024). Environmental addresses issues such as climate change, resource depletion, and pollution, Social, involves labour rights, diversity, and community engagement, while Governance, relates to corporate governance, executive compensation, and board diversity. ESG has become increasingly important in the decision making process for companies and provide a quantitative performance indicator to assess risks and ethics (Hoyos Guevara & Dib, 2022).

The principles underlying ESG are not new, rooting themselves in Corporate Social Responsibility (CSR) and Socially Responsible Investing (SRI) as illustrated in Figure 2 (Khan et al., 2024). The CSR concept developed after World War II and has since evolved (Farcane & Bureana, 2015). From 1991 to 2006, there was a significant growth in companies issuing CSR reports in the U.S, Europe, and Canada (Cohen et al., 2017). Gomes (2019) defines CSR as a concept that refers to a company's engagement and performance across various non-financial dimensions. According to Brown-Liburd et al. (2018), CSR encompasses social, environmental, and governance issues, which explains the interchange between CSR and ESG. However, Rau & Yu (2023) cautioned against using these terms interchangeably, as ESG relates to the incorporation of ESG factors in investment decision, while CSR refers to social responsibility of the company. Cabaleiro-Cerviño & Mendi (2024) further note that CSR incorporates environmental and social elements while ESG explicitly incorporates governance. Sciarelli et al. (2023) emphasised highlighted that ESG scores are used to evaluate a company's CSR performance. Concurrently, ESG is the most common framework used to measure sustainability is ESG (Martiny et al., 2024).

SRI was introduced in the 1980's, SRI integrates ESG considerations into investment decision and it is also referred to as ethical investing (Ballesterio et al., 2015). SRI and ESG are closely related and at times can be referred in conjunction, however, there are differences, ESG metrics are more quantitative, relying on standardised frameworks, while SRI metrics are often qualitative, focusing on ethical alignment (Szewczuk & Więcek-Janka, 2024). Unlike ESG, SRI incorporates negative screening, this excludes companies involved in tobacco, alcohol, gambling, weapons and military to name a few; SRI also rewards companies with positive social behaviour (Ballesterio et al., 2015).

In 2004 ESG principles were formally introduced by the United Nations to encourage responsible investing by financial institutions, the term however was coined in 2005 in a study titled, “who cares wins” (Hoyos Guevara & Dib, 2022). Since ESG was coined, a number of companies are pursuing ESG credentials and have started producing sustainability reports (Del Gesso & Lodhi, 2025). Initially ESG was meant for investment analysis, it however, has evolved and companies are incorporating ESG into company strategies (Hoyos Guevara & Dib, 2022). In 2006, the United Nations introduced Principles for Responsible Investment (PRI) to provide a framework for integrating ESG factors into their investment decision-making.

2.6.2 Shift from Voluntary Disclosure

Apergis et al. (2022) identified two dimensions in the ESG context: management of ESG within the firm and ESG regulation and legislation in the external environment. The ESG regulation and legislation landscape has evolved since ESG was introduced; initially, disclosure was largely voluntary in many countries, influenced by early adopters and signatories of the PRI (Sady Mazzioni et al., 2024). In recent years, the number PRI signatories reached 5,300 in 2023, representing \$121 trillion assets under investment (An et al., 2024). This increase is in line with financial institutions and regulatory authorities promoting ESG disclosure (An et al., 2024). Over time, investor pressure transparency has led to more companies adopting ESG disclosure policies (Pollman, 2019). Garcia et al. (2017) note the importance placed by policy makers on companies to report on governance policies, social, and environmental performance; for instance, in 2008, China mandated public companies to disclose information on their environmental impact (Teti et al., 2022). Growing concerns over climate change and sustainability have contributed to the development of agreements, regulation, such as the Paris agreement in 2015 (Apergis et al., 2022). ESG reporting requirements often vary by region; for an example, companies in the EU are required to report on non-financial information relating to diversity, climate, and sustainability goals (Christensen et al., 2021).

The approach to ESG within companies is shifting from viewing ESG reporting as merely compliance, to considering it as part of a value creation strategy (Edmans, 2022). Companies focusing on long-term growth and investment are likely to encounter environmental risks as

a consequence of climate change, and the adoption of ESG serves as a business risk mitigation (Garcia et al., 2017). Companies are increasingly recognising the strategic and financial advantage of disclosing ESG information (An et al., 2024). The increase in ESG adoption has led to the introduction of universally known standards such as, Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI) (Christensen et al., 2021). A challenge identified by some companies relates to the cost associated with ESG disclosure (An et al., 2024). In addition to these costs, Zhong et al. (2022) highlighted that companies adopting ESG may benefit from increased revenue and an improved corporate image.

Although reporting standards have been introduced, Narula et al. (2024) highlighted the ongoing complexity of the ESG landscape and the lack of a standardised reporting framework. The market continues to express a need for standardised reporting and clarity regarding measurements (Gangi & Varrone, 2018). The lack of standardisation presents challenges relating to verifiability and comparability for users (Christensen et al., 2021), and increasing the risk for greenwashing (An et al., 2024).

2.6.3 ESG Frameworks and Standards

The increased focus and adoption of ESG factors has driven the need for disclosure and consequently numerous standards and frameworks have been developed, Bohn et al. (2024) refers to these as the alphabet soup because of their large number and acronyms.

The GRI is a widely used framework that focuses on three main dimensions of sustainability: economic, environmental, and social aspects (Leal Filho et al., 2025). The environmental and social dimensions align with the E and S pillars of ESG. García-Sánchez et al. (2019) highlighted that as a mitigation against the shortcomings of the GRI, some companies combine the GRI with the IFC Performance standards, this is often referred to as the GRI-IFC strategy. Unlike many other frameworks and standards, the GRI was developed with a diverse stakeholder consideration (de Villiers & Sharma, 2019). However, the GRI is prone to selective reporting, allowing companies the flexibility to report favourable metrics and can result in greenwashing (García-Sánchez et al., 2019). Additionally, the framework's voluntary reporting can hinder year-on-year comparison, as companies may omit unfavourable information, making it difficult to track its progress (Bohn et al., 2024).

The International Finance Corporation (IFC) Performance Standards, designed to assist companies in defining CSR strategy, set targets, implement plans, and review results (García-Sánchez et al., 2019). The IFC provides companies with eight performance standards, covering the environmental and social pillars of ESG, often referred to as E&S sustainability (IFC, 2012). Similar to the GRI, the voluntary nature of the IFC performance standards enables companies to report on favourable metrics (García-Sánchez et al., 2019).

The Integrated Reporting (IR), aims to explain to providers of financial capital how the organisation creates value (Demaria & Rigot, 2020). This is achieved by creating a cohesive approach to corporate reporting, communicating factors that affect value creation. As noted by Dumay et al. (2017) IR is an integral part of integrated thinking and encompasses six capitals: financial, manufactured, intellectual, human, social and relationship, and natural. Dumay et al. (2017) noted that a barrier to the adoption of IR is due to confusion, as there are multiple versions. This contributes to inconsistencies in reporting and makes it difficult to compare company performance (Demaria & Rigot, 2020).

The Sustainability Accounting Standards Board (SASB) designed to align with international accounting standards by reporting on ESG factors likely to impact financial performance (Yeşil, 2024). These standards cover 11 sectors and 77 industries through the incorporation (Yeşil, 2024). Bohn et al. (2024) highlighted that the SASB standards focus on financially material sustainability information tailored for investors. This narrow focus may restrict broader stakeholder inclusion, potentially leading to inadequate accountability relating to the complex and interrelated nature of sustainable development challenges (Yeşil, 2024).

Task Force on Climate-related Financial Disclosures (TCFD) was established in response to a request from the G20 to develop a voluntary, standardised framework for climate related risk management (Ngo et al., 2022). According to Demaria & Rigot (2020), this framework allows companies to report on the how they identify, assess, and manage climate related risks. Ngo et al. (2022) noted that the limitations of the TCFD stem from its voluntary nature. Furthermore, Demaria & Rigot (2020) observed that despite the increase in information availability relating to climate risk, companies are less compliant with the recommendations (Ngo et al., 2022).

Lastly, the Sustainable Development Goals (SDGs) framework launched by the United Nations in 2015, is recognised as the most extensive framework for societal, environmental,

social and governance issues (Delgado-Ceballos et al., 2022). Swamy Perumandla et al. (2025) noted the role played by the SDGs in identifying risks such as, climate and inequality which are important for long term consideration. While SDGs play a key role in identifying risks, Delgado-Ceballos et al. (2022) highlighted that their application is often at a societal or country making it unclear for business application.

2.7 The South African Context

Following the end of apartheid, the South African M&A landscape saw a sharp increase in M&A activity because of an inflow of foreign direct investment (Wilson & Vencatachellum, 2019). Even though apartheid was abolished, inequality has worsened, resulting in South Africa being ranked as the most unequal country with a Gini coefficient at 0.63 (Chininga et al., 2024). To address inequality, the Broad-Based Black Economic Empowerment (B-BBEE) legislation was introduced. B-BBEE serves as a key policy designed to address social inequality to address racial, gender, and economic disparities (Myeni & Singh, 2024). Robinson et al. (2020) added that B-BBEE functions as a transformation and wealth redistribution tool. Compliance is measured through a scorecard with elements of ownership, management control, skills development, enterprise and supplier development, and socio-economic development individuals (Myeni & Singh, 2024). Non-compliance impacts the company's business opportunities, in particular conducting business with government institutions (Myeni & Singh, 2024). The B-BBEE policy face some challenges, these are often highlighted in the form of pay disparity for black female workers and the perception that that it benefits a small black elite (Myeni & Singh, 2024).

In addition to inequality, Chininga et al. (2024) highlighted environmental challenges in South Africa. This is because of the country's reliance on fossil fuels, South Africa is the largest carbon emitter in Africa and is ranked 13th in the world. Emmerson et al. (2023) observed that South Africa is reliant on dominant industries like mining and agriculture face risks from extreme weather conditions, an example are the floods experienced in Kwa-Zulu Natal in 2022, resulting in R17 billion cost to repair infrastructure and a 1.8% cost of annual GDP (Wesgro Research, 2022). Although progress has been considered so far, South Africa adopted a Climate Change Act in July 2024 aimed at strengthening climate governance

(Climate Change Act, 2024). Other measures include the Carbon Tax Act, the Just Energy Transition (Mubanga & Kwarteng, 2020).

Nonetheless, Feyisetan et al. (2025) noted strong governance performance in South African companies. Taplin (2021) credits the strong governance to the King Codes, introduced in 1994 by Professor Mervyn King. The King codes have evolved to the publication of King IV, that operates on an apply and explain approach and serve as a benchmark for good corporate governance (Nel et al., 2025). The apply and explain approach requires companies to demonstrate the applicability of King IV, placing the onus on company boards (Ramalho, 2019). Another key aspect of the King IV codes is the stakeholder approach, recognising the societal interdependence (Robinson et al., 2020). However, compliance to King IV is only mandatory for companies listed in the Johannesburg Stock Exchange (JSE) (Robinson et al., 2020).

Institutional investors are subject to regulation in addition to the Code for Responsible Investing in South Africa (CRISA) introduced in 2011. This voluntary initiative seeks to encourage institutional investors and service providers to incorporate ESG factors into their investment decisions (Chininga et al., 2024). Nel et al. (2025) added that South African institutional investors have demonstrated a growing commitment to responsible investment, as evidenced by the relatively high number of signatories to the PRI compared with other emerging economies. In addition, a recent amendment to the Pension Fund Act mandates a portion of capital to be allocated to address social concerns (Nel et al., 2025). Unlike other emerging economies, the history of South Africa requires investors to consider significant environmental, social, and governance implications for stakeholders. The country's context is shaped by social legislation, responsible investment principles, and its role as an M&A hub on the continent, which exposes it to potential M&A failures.

2.8 Theoretical Foundations

2.8.1 Stakeholder Theory

Stakeholder theory, initially introduced by R.E. Freeman in 1984, is the dominant theoretical perspective that shifts the corporate purpose from profit maximisation to stakeholder

consideration (An et al., 2024). Stakeholders are classified as primary, including shareholders, creditors, customers, and suppliers, and secondary, such as regulators, environmental groups, and media (Zhong et al., 2022). An et al. (2024) added that stakeholders may be a group or individuals who can positively or negatively influence the company's objectives. Zhong et al. (2022) cautioned of the competing priorities of stakeholders, that companies must consider these in light with their power and the company's ESG strategy. Managers should balance the interest of stakeholders to ensure the survival of the company and preserve the company's reputation (Benlemlih & Girerd-Potin, 2017). Behl et al. (2021) warned of the short-term view of shareholders for profit expectations while ESG might require investment, however, the positive ESG scores will benefit shareholders in the long run. Management needs to manage stakeholder expectations and communicate effectively.

Freeman et al., (2020) added that stakeholder theory views a business as a system, embedded within a broader system, with each stakeholder contributing to the success or failure of the company. At the core of stakeholder theory is value creation for all stakeholders (Zhong et al., 2022). According to Zhong et al. (2022), stakeholder theory focuses on creating value for all stakeholders. Improving stakeholder relationships, through the implementation of ESG, may support improved reputation and profit maximisation, which can lead to increased shareholder value, greater customer loyalty, improved productivity, and the ability to attract high calibre employees (Zhong et al., 2022). Benlemlih & Girerd-Potin (2017) suggested that sustainability and stakeholder theory are interlinked. While Ng & Rezaee (2020) noted the reciprocal relationship between the company's ESG sustainability investment and stakeholders, contributing to value creation for the company and stakeholders. Benlemlih & Girerd-Potin (2017) observed that ESG and stakeholder theory can function as a risk management tool to support management in establishing long term value creation for all stakeholders.

2.8.2 Agency Theory

Agency theory, as highlighted by Vinocur et al. (2022), shows how self-interest can motivate management to pursue M&A activity, acting in their best interest resulting in an agency

problem (Gangi & Varrone, 2018). Such action can result in value destroying acquisitions (Jory et al., 2019).

The governance pillar in ESG, can help align the interest of management and shareholders. Fan et al. (2022) highlighted that the G pillar, incorporates management long term value creation, the protection of shareholders interest, and the remuneration of management. (Wang et al., 2021) added that effective governance can mitigate against the agency problem, and the integration of ESG in management remuneration packages aligns them to focus on long term, sustainable value creation. However, (Zheng et al., 2023) added that ESG engagement benefits non-financial stakeholders at the expense of shareholders.

Shaukat et al. (2016) highlighted the importance of independent board members in the promoting of ESG and reducing agency problem, thereby contributing to a positive influence in firm value. Effective governance controls suppress the agency problem and encourage long term value creation (Wang et al., 2021). Zhong et al. (2022) noted the role of corporate governance as described by agency theory and stakeholder theory to balance the interest of stakeholders.

2.9 Practical Integration of ESG into the M&A Process

ESG has become an important aspect in business practice and has now been established as an important factor in the M&A process (Barros et al., 2021). This transition is referred to as a core aspect of corporate strategy as noted by Susen (2024). Zheng et al. (2023) added that ESG helps companies to gain the support of stakeholders which is crucial in the M&A process.

2.9.1 Target Screening

The acquirer can use ESG factors during the screening process to identify a possible target. Screening focuses on the individual pillars and materiality in line with the acquirer's long-term strategy and would be incorporated in the pre-deal phase (Galpin & De Vibe, 2024). Screening seeks to identify and mitigate risks associated to noncompliance to ESG factors (Nofsinger et al., 2018). According to Amel-Zadeh & Serafeim (2018) acquirers tend to favour negative screening methods to exclude a target lacking strong ESG performance. The acquirer can use materiality to prioritise ESG factors relevant to their sector (Fan et al.,

2022). Gordano (2022) noted that acquirers with strong ESG performance often seek out similar firms; however, firms with lower ESG ratings may be more affordable acquisition targets, allowing the acquirer the opportunity to improve their ESG standards post-acquisition.

Assessing ESG performance typically requires data collection from ratings agencies, scoring methodologies, and adherence to reporting standards (Dorfleitner et al., 2015). The primary function of the ratings agencies is to collect and codify data from various sources including company and publicly available data utilising scoring methodologies (Baran et al., 2022). However, Zaroni et al. (2025) noted that inconsistent measurement concepts and methodologies can lead to incomparable ESG scores. Martiny et al. (2024) added that the ratings from the agencies differ substantially and at times can reach opposite conclusions. The difference is largely attributed to measurement and score divergence (Berg et al., 2022).

2.9.2 Due Diligence Process

Galpin & Maja de Vibe (2024) highlighted that one-third of M&A transactions incorporate ESG in due diligence process. This trend is largely attributed to the increasing awareness of the role of sustainability in financial success of M&A (Barros et al., 2021). Furthermore, companies face increasing regulatory pressure to invest in companies that meet the relevant environmental, social and governance standards (An et al., 2024), see Figure 3. ESG due diligence serves as a framework for evaluating the target company risk (Li et al., 2021), enabling the identification of risks that traditional financial metrics would not incorporate (Alves & Meneses, 2024).

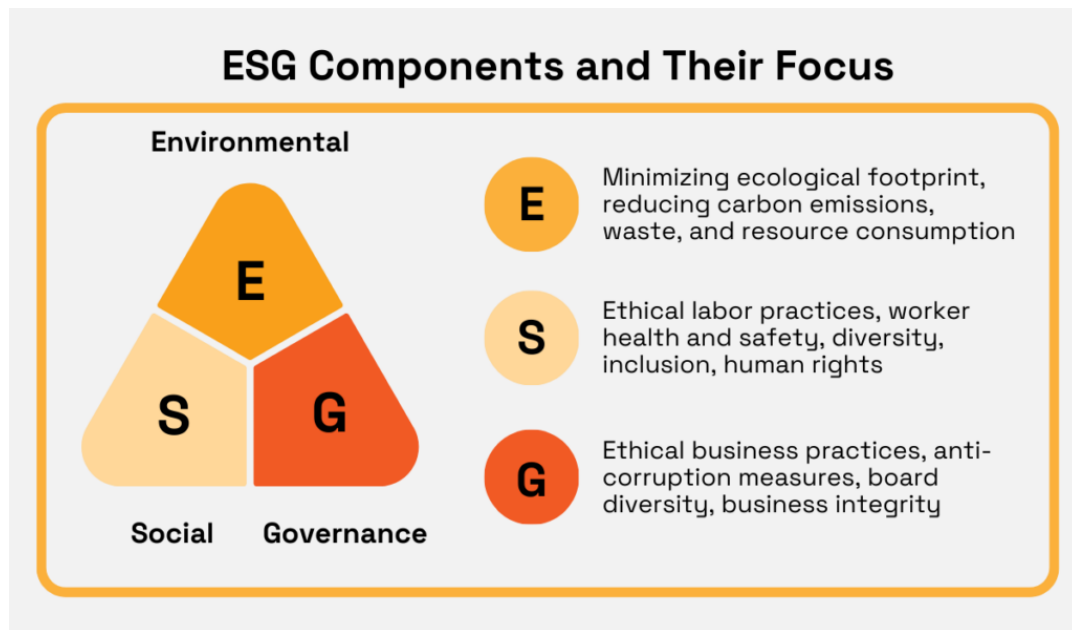


Figure 3: ESG Due diligence (Tanase, 2025)

An environmental due diligence (EDD) assesses the compliance to environmental laws and regulations, past environmental violations, vulnerability to climate related risks, fundamentally the E factor capturing the target's natural ecosystem (David, 2024). The goal of an EDD is to identify and mitigate against hidden liabilities. Apergis et al. (2022) noted that materiality varies by industry; for instance, companies operating in the energy, construction, and mining sectors face greater regulatory and environmental risks than those in the financial services sector. Companies with poor environmental compliance may be subject to penalties, legal action, and reputational damage (David, 2024). Which is a deterrent for stakeholders as they recognise that reputational risk (Apergis et al., 2022). Berg et al. (2022) found that the E pillar exhibited the highest correlation, suggesting that ratings agencies agree on its measurements and methodologies. EDD is increasingly becoming a mandatory requirement, attributed to increased regulation (Galpin & De Vibe, 2024).

The governance due diligence (GDD) focuses on the target's effective governance systems (David, 2024). This includes the board structure and composition, diversity, compensation of management, ethical standards and compliance, and shareholder rights. The GDD incorporates the assessment of the target's internal controls, anticorruption policies, and mitigate against agency cost (Hoyos Guevara & Dib, 2022). This is because weak governance can worsen agency problems (Wang et al., 2021). Fan et al. (2022) added that

unlike other pillars, the G pillar has longer history of data availability, however, the quality of data might be questionable. Ng & Rezaee (2020) argued that investors pay more attention to the G pillar than E and S, this is because strong governance performance have an impact on financial performance.

Social due diligence (SDD) incorporates social dimensions relating to diversity, health and safety, human capital, human rights and labour standards, social license to operate (David, 2024). The objective of an SDD is to evaluate the risks and opportunities relating to the target's workforce (Luo & Tang, 2022)). Rau & Yu (2023) highlighted the difficulty of quantifying S pillar, this difficulty is attributed to the disagreements in measurement and methodology (Berg et al., 2022). Another challenge with the S pillar stems from the voluntary disclosure and can be susceptible to social washing (Fan et al., 2022). Despite the challenges, a strong social performance demonstrates long term value creation and company resilience (Bose et al., 2021).

de la Fuente & Velasco (2024) highlighted a notable challenge of the unequal distribution of efforts among the three pillars. The environmental pillar often receives greater attention due to its relevance to external stakeholders (Apergis et al., 2022). Furthermore, Amel-Zadeh & Serafeim (2018) observed that the absence of a clear standard framework complicates the due diligence process, as the acquirer first needs to familiarise itself with the specific framework. Availability of reliable ESG information is central to the due diligence process, however, the lack of standardisation and aligned methodology for ESG scores restricts its integration into financial modelling and benchmarking (Amel-Zadeh & Serafeim, 2018). These challenges suggest an alignment between ESG specialists and investment professionals lacking in literature (Narula et al., 2024).

2.9.3 Post-Merger Integration

This stage involves reconfiguring resources and processes to integrating ESG aspects into the combined entity and addressing any gaps identified during the due diligence process (Galpin & De Vibe, 2024). Huang et al. (2023) asserts that the market value of the target typically increases due to ESG value creation , however, to fully realise the benefits, it is essential for the target to ensure cultural alignment between with the acquirer (Freeman et al., 2021).

Feyisetan et al. (2025) highlighted the significance of culture and its influence on post-merger performance. Galpin & De Vibe (2024) added that ESG factors are often interconnected with organisational culture, alignment between the target and acquirer's ESG policies and culture is crucial to ensure value creation post-merger (David, 2024). An et al. (2024) further highlighted the importance of leveraging the social pillar to assist in addressing cultural conflicts and improve employee retention post-merger. According to Zheng et al. (2023) consistent stakeholder engagement throughout the M&A process is crucial to maintain stakeholder trust.

Research shows a positive relationship between ESG score and stock market performance, signalling sustainability (Feyisetan et al., 2025). This notion was supported by Martiny et al. (2024), who asserted that ESG is considered as a determinant of value creation. (Armstrong, 2020) highlighted that ESG practices result in improved operational performance and lowered cost of capital.

2.10 Long Term Value Creation

Since its incorporation, ESG has evolved with assets under management exceeding \$121 trillion (Narula et al., 2024). In addition, in 2019, 300 mutual funds with ESG mandates received \$20 billion in net flows reflecting four times increase compared to 2018 (Gillan et al., 2021). This because investors consider ESG as a strategic tool for managing long term risks (Ademi & Klungseth, 2022).

A key driver for ESG incorporation is the belief that ESG performance is key to investment performance (Amel-Zadeh & Serafeim, 2018). Behl et al. (2021) noted that while the initial investment in ESG may result in short term negative financial impact, companies can benefit in the long term for all stakeholders, not just shareholders. Armstrong (2020) linked ESG to better operational performance, this is achieved once operational synergies are realised. Apergis et al. (2022) further added that better ESG scores translates to a reduced cost of capital enabling the company to improve its profit margins through reduced cost of debt and increase its valuation post-merger (Armstrong, 2020). Renneboog & Vansteenkiste (2019) presented an alternative view, highlighting that the value created is often short term and captures market expectations than value realisation. In contrast, Galpin & De Vibe (2024)

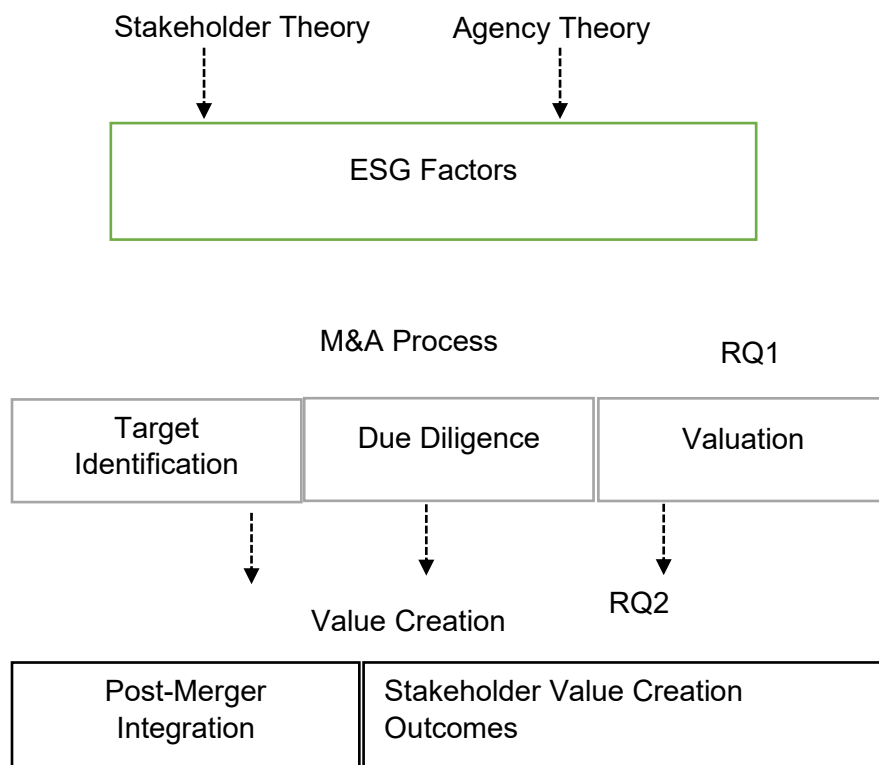
added that strong ESG performance improves the company's long-term performance, and in turn long term value for stakeholders.

However, long term value creation extends beyond financial benefits and can be in the form of improved company and brand reputation resulting in improved customer loyalty (Alves & Meneses, 2024) as well as lower stock volatility, signalling investor confidence (Apergis et al., 2022). Another non-financial benefit associated with ESG, is its incorporation of stakeholder theory, enabling the acquirer to consider stakeholders throughout the M&A process to strengthening long-term performance of the company (Bose et al., 2021). Incorporating ESG will enables the acquire to benefit from long term post-merger value creation for stakeholders.

2.11 Conclusion

Literature is clear on the role of ESG as a risk mitigation tool for companies engaged in M&A activities, and its relevance in value creation for stakeholders. With the rising demand for sustainable investment practices, ESG performance has become increasingly important for companies, investors, and regulators (Naffa and Fain, 2022). Studies highlight the lack of standardisation in ESG frameworks and metrics, along with the challenges associated with voluntary reporting (Zaroni et al., 2025). Another complication highlighted by Galpin & De Vibe (2024) is the voluntary nature of these frameworks, which influences how M&A advisors interpret these standards during an M&A transaction. While the ESG due diligence may be outsourced to ESG specialist advisors, the challenges persist. Considering the high failure rates on M&A transactions, and the potential role played by ESG to identify and mitigate risks which would be overlooked, an exploratory is needed to better understand these challenges in incorporating ESG factors in M&A activities. Elena et al. (2023) highlighted the importance of conducting this research in developing countries.

Figure 4: Framework of the study



3. Research Questions

3.1 Introduction

This chapter presents the research questions which formed the basis for this research study, in support of the literature review in Chapter 2. Given the limited public information on the integration of ESG factors in M&A activities in South Africa, the first question is designed to explore the challenges in incorporating ESG factors in M&A process, the second question sought to examine the post-merger value creation for stakeholders.

3.2 Research Questions

The study aims to address a recognised gap in literature regarding identifying the challenges in incorporating ESG factors in M&A in emerging economies, specifically, South Africa. It sought to gain insights from ESG and M&A practitioners to address differences in perspectives and identify potential solutions.

Research Question 1: What are the primary challenges in incorporating ESG factors in M&A process (target identification, due diligence, and valuation)?

Historically M&A activity was driven by financial and operational motives aimed at increasing shareholder wealth (Maran & Parker, 2019). Until recently, scholars noted a shift to in M&A to sustainability and stakeholders (Junni & Teerikangas, 2019). However, literature identified several barriers including, lack of standardisation and data quality (Galpin & De Vibe, 2024), no alignment between ESG specialists and investment specialists (Narula et al., 2024).

Research Question 2: How can integrating ESG in M&A process impact post-merger value creation for stakeholders?

The aim of this question is to examine how ESG factors can facilitate value creation for stakeholders beyond shareholders, grounded on stakeholder theory.

Literature identified the role of stakeholder theory in enabling the acquirer to create value post-merger (Feyisetan et al., 2025). ESG integration is an enabler for improved financial and

operational performance (Zheng et al., 2023), reduced cost of debt (Armstrong, 2020), improved investor confidence (Bose et al., 2021), and risk mitigation and deal success (Galpin & De Vibe, 2024),

4. Research Methodology

4.1 Introduction

This chapter outlines the detailed methodology undertaken to address the research questions outlined in chapter 3. A qualitative approach was undertaken to gain insights into the challenges faced by M&A practitioners when incorporating ESG factors into M&A activities, as well as explore the potential post-merger value creation for stakeholders. Data collection was conducted through semi-structured interviews with two participant groups: the first group of participants were M&A practitioners and the second group of participants consisted of ESG practitioners. The aim was to explore the participants' lived experiences.

4.2 Research Design

The research employed qualitative research to explore the incorporation of ESG factors in M&A activities to address research question one, as well as the role of ESG in post-merger value creation for stakeholders to address research question two. An exploratory, qualitative study was conducted to determine how the two phenomena are related from the participants' viewpoint (Anderhofstadt et al., 2024). Strijker et al. (2020) noted that qualitative research is valuable for exploratory studies as they are designed to handle the complexity of human experience. This method is human centered and enables the researcher to gain insights from the lived experiences of the participants (Subedi, 2021). Lim (2024) stated that qualitative research method is appropriate for answering 'how', 'where', 'what', 'when', and 'why' questions. To understand these phenomena, identify patterns, and gain new insights, qualitative study was appropriate for this research (Saunders et al., 2018).

4.3 Research Philosophy

The knowledge gap from a South African context underpinned the research and informed the posed research questions. Therefore, this study explored the questions under interpretivism philosophy (Saunders et al., 2018). Interpretivism asserts that reality is subjective and constructed through experiences and interactions (Pervin & Mokhtar, 2022). Goldkuhl (2012) added that interpretivism should be used when the researcher seeks to understand knowledge of the participants and construct reality through their lenses. Questions were

asked to gain contextualised insights from the participants point of view, captured nuances and complexities often lost in quantification (Alharahsheh & Pius, 2020). Adopting interpretivism allowed for nuanced understanding of the phenomena from the M&A and ESG practitioners.

4.4 Research Approach and Methodology

An inductive approach was followed during this study to identify themes that emerged during the course of the qualitative data analysis to gain a deeper understanding of the research context. Saunders et al. (2018) defines an inductive research approach as building theory from analysing collected data and fundamentally represents a bottom-up approach to theory development. Fischer & Guzel (2022) added that inductive approach is useful for exploratory research and yields insights into the phenomena. This approach allowed the researcher to progress from observation to a detailed analysis of interview data, to facilitate the identification of themes (Thomas, 2006). Given that the inductive approach is typically longer and less predictable than the deductive approach (Saunders et al., 2018), the researcher continually improved and assessed the themes.

Due to time constraints, data was collected using a mono method with a cross-sectional timeframe. Saunders et al. (2018) define the mono method as relying on single data collection, while a cross-sectional time frame is collecting data during one period. Cross-sectional designs are suitable for defining a phenomenon and suitable for answering exploratory research (Saunders et al., 2018). The cross-sectional approach was suitable and efficient given the time constraints to complete the research. Participants' view of the phenomena were established through semi-structured interviews to allow for flexibility, while maintaining focus of the research questions. Unlike structured interviews, which follow a script, semi-structured interviews are useful when data are required about a specific topic to enable theory development by encouraging participants to tell stories from their perspective (Saunders et al., 2018). This approach enabled the researcher to ask additional questions to clarify their understanding and delve deeper into the participants response. Saunders et al. (2018) added that semi-structured interviews are compatible with interpretive and exploratory research.

4.5 Research Strategy

The phenomenology research strategy was employed to provide a clear understanding of the phenomena through in-depth exploration of an individual's lived experience (Collingridge & Gantt, 2019). Lim (2024) added that phenomenology research allows the researcher to immerse themselves into the participant's perspectives and help the researcher uncover details that other methods might overlook. Neubauer et al. (2019) emphasised that phenomenology is a form of qualitative study. While phenomenology is suitable for exploratory research, Lim (2024) cautioned of its susceptibility to bias and suggested that the researcher prioritise systematic processes that ensure that findings are grounded in the data. Participants were asked to provide their in-depth insights into the experiences of M&A and ESG across different sectors.

4.6 Population

Saunders et al. (2018) defines a research population as a set of group members that the research is focused on. The participants within the selected population group should enable the researcher to achieve an in-depth understanding of the phenomena (Alharahsheh & Pius, 2020).

In order to gain a strong understanding of the key challenges faced by M&A practitioners in incorporating ESG factors in M&A activities, the population of this study was in house M&A managers and analysts as well as M&A advisors (Group 1). To address the second research question, to understand the role of ESG in potential post-merger value creation for stakeholders, the population for the study were ESG investors (Group 2).

4.7 Unit of Analysis

The unit of analysis is 'what' is being analysed in the research to draw a conclusion (Kerrin Myres, 2025). Given the chosen study, the study obtained the lived experiences of M&A practitioners responsible for executing M&A strategies and ESG practitioners engaged in ESG investment. The individual was the unit of analysis.

4.8 Sampling Method and Size

The researcher employed exploratory, non-probability, purposive and snowball sampling techniques. Saunders et al. (2018) describes non-probability sampling as a sample method used when a complete list of the population is unavailable. This sampling method is often employed in qualitative research as the intent is in-depth exploration of a phenomenon (Saunders et al., 2018).

Given the exploratory nature of this research, purposive sampling was employed to select experienced individuals in M&A strategy execution and ESG investing (Guest et al., 2006). The inclusion of both groups enabled the researcher to gain insights into the participants' experiences and obtain cross professional perspectives on the integration of ESG factors in M&A activities. Lastly, using snowball sampling, the participants were asked to refer potential individuals outside of the researchers' network. Combining these sampling methods, the researcher was able to gather the required data given the time frame. The sampling criteria for this study were structured into two groups, as interviews aimed to gain insights from the perspective of M&A and ESG practitioners.

The participants were categorised as Group 1 or Group 2 if they currently or previously worked, in the execution of M&A strategies or ESG investing for at least one year.

Furthermore, individuals from the mining sector were excluded due to existing research focused on this industry. Group 1 participants were required to have conducted or managed an M&A activity in the past six months, with experience in the key aspects of the M&A process including, target identification, valuation, and due diligence. Group 2 participants were expected to have experience or knowledge of ESG frameworks such as GRI, PRI, TCFD, or IFC standards; and/or familiarity with evaluation tools such as S&P or MSCI. Lastly participants in this group must have been employed by an ESG advisory firm, investment institution, or sustainability department.

Saunders et al. (2018) describes a sample as a subgroup of a whole population. In qualitative studies literature does not specify a single rule to determine sample size (Gillan et al., 2021). Similar studies in developed economies employed qualitative analysis, however, this type of research has not been conducted in South Africa. Given the exploratory nature of the

research the study followed the guidelines by Anderhofstadt et al. (2024) of nine and 17 interviews.

In this study, six M&A and eleven ESG practitioners were interviewed, as shown in Table 1.

Table 1: Summary of participants

Role	Discipline	Sector	Years in Role
Corporate Development Manager	M&A	Financial Services	2
Corporate Development Manager	M&A	Financial Services	4
Transaction Executive	M&A	Advisory	5
M&A Manager	M&A	Beverages	2
Strategy and M&A Insights Analyst	M&A	Chemicals	2
Mergers and Acquisitions Analyst	M&A	Advisory	1
Financial Reporting Specialist	ESG	Advisory	6
Head of Impact	ESG	Financial Services	5
ESG Associate	ESG	Financial Services	2
ESG and Impact Lead	ESG	Financial Services	3
ESG Investor	ESG	Financial Services	5
ESG Analyst	ESG	Financial Services	9
Portfolio Manager	ESG	Financial Services	5
Senior Consultant	ESG	Advisory	6
Fund Origination Officer	ESG	Financial Services	6
ESG Risk Analyst	ESG	Financial Services	4
Investment Specialist	ESG	Financial Services	6

Obtaining access to Group 1 participants proved to be challenging, as participants indicated that E&S was not a factor in M&A process. Consequently, six participants were interviewed. It is worth noting that data saturation was reached quicker due to homogeneity, whereas Group 2 showed diversity, requiring more information until saturation was reached. Saunders et al. (2018) noted that saturation is reached when no new information or insights are obtained from interviews.

4.9 Measurement Instrument

The study employed semi-structured interviews with M&A and ESG practitioners as a method of data collection. The measurement instrument consisted of two interview guides for the identified groups; these guides were designed to ensure alignment with the purpose of the study and that they address the research questions (see Appendix A). The researcher used the guides to maintain the same thematic approach across all participant interviews (Qu & Dumay, 2011). Saunders et al. (2018) noted that the format of semi-structured interviews allows the researcher to ask open ended questions and probe in order identify patterns and make observations. The researcher conducted a pilot interviews in line with a suggestion by Saunders et al. (2018). The purpose of the pilot interviews was to assess if the questions are easily understood by the participants. No amendments were made to interview guides post the pilot. To enable dialogue flow, the interview guides were grouped according to the research questions.

4.10 Data Gathering Process

This section outlines a step-by-step process followed to answer the research questions posed in chapter 3. Data collection followed an inductive, interpretivism process using semi structured interviews to gain an in-depth data from participants' perspective.

Step 1: Ethical clearance

The researcher obtained ethical clearance from the GIBS Ethics Committee prior to starting data collection.

Step 2: Identification of participants.

Employing purposive and snowball sampling methods, potential participants' profiles were reviewed on LinkedIn. The selection ensured both groups and the approach was applied to targeted M&A and ESG practitioners with experience in M&A or ESG investing.

Step 3: Participant recruitment

Once the participants' profile met the criteria, a message was sent to them with the research purpose and request for an email address to share an invite, for them to suggest a suitable time for a Microsoft Teams meeting. The message also highlighted that participation was voluntary, and responses would be treated confidentially.

Step 4: Scheduling interviews

Interview times were scheduled in line with the participants availability. Attached on the invitation was a consent form for their signature. Due to participants schedules, the interviews were conducted on Microsoft Teams. Each interview lasted approximately 45 to 60 minutes.

Step 5: Conducting the interview

Prior to starting the recording and transcript, consent was requested from the participant. Semi structured interviews were conducted using an interview guide comprising of open-ended questions to help the interviewer reduce the risk of leading the participants. Interviews were conversational and engaging to allow participants to share their lived experiences, consistent with phenomenological approach. Active listening was employed by way of maintaining eye contact to ensure engagement with participants (Saunders et al., 2018). One of the participants shared that they had recently been retrenched, this information required the interviewer to be sensitive and empathetic.

Step 6: Transcribing and data cleaning

Once the interviews were concluded, the interviewer listened to the recordings and cleaned out the transcript. This step of listening to the recording enabled the interviewer to identify their tone during the interview and reflect on how the questions were asked and implement improvements for the next meeting. Recordings and transcripts were stored in a password protected One Drive folder. The cleaned-out transcripts were uploaded into ATLAS.ti for inductive thematic analysis and coding.

4.11 Analysis Approach

The qualitative data analysis process utilised inductive thematic analysis to identify recurring patterns. The bottom-up exploratory approach allowed the researcher to develop themes

emerging from the data (Naeem et al., 2023). This approach aligned with the interpretivism philosophy which underpinned the study.

Once all interviews were conducted and transcripts were cleaned out, the researcher began systematic coding to identify patterns and themes emerging from the interviews. Laari (2025) defines thematic analysis as a valuable research method that focuses on identifying, analysing and interpreting patterns of meaning to provide insights into the phenomenon under investigation. The thematic analysis followed the six-step process proposed by Braun and Clarke in 2006 (Naeem et al., 2023).

Step 1: Transcription, familiarisation with the data, and selection of quotations

The researcher listened to the recording and reviewed the transcriptions from Microsoft Teams to ensure accuracy and enhance understanding of the participant’s narratives. This process allowed the researcher to discern initial themes. ATLAS.ti software was used to generate codes to the interviews, allowing the researcher to answer the research questions.

Step 2: Selection of keywords

This step required the researcher to examine the data to identify recurring patterns and designate them as keywords that captures the participants’ experience.

Step 3: Coding

These are defined as short phrases assigned to data capturing the core message. (Naeem et al., 2023) added that the keywords form the backbone of the analysis (see Appendix 4).

Table 2: Example of coding process

Quotation	Code	Description
"There seems to be a conglomerate of different frameworks"	Lack of Standardisation of ESG metrics and Frameworks	Challenges in standardisation resulting in confusion and data inconsistency.

Step 4: Theme development

This step involves organising codes into meaningful groups to identify patterns to develop themes, these themes are then linked to the research questions. The researcher identified themes that captured the participants lived experiences.

Step 5: Conceptualisation through interpretation of keywords, codes, and themes

This step required the researcher to understand emerging concepts and identify meaning, this meant reviewing and refining the concepts to align with the research question (see Appendix 4).

Step 6: Development of conceptual model

The final step involves the representation of data to answer the research question. The presentation of themes and discussion will follow in Chapter 5.

4.12 Quality Control

According to Lim (2024), quality control in qualitative research is ensured through the framework of trustworthiness. This framework addresses concerns similar to validity and reliability in quantitative research but adapted for qualitative research. The first criterion in the framework addresses credibility, referring to the degree in which the findings represent the phenomena (Lim, 2024). One of the strategies to ensure credibility is triangulation, defined as the use of two or more methods of data collection (Cohen et al., 2007). The researcher interviewed two different data sources to ensure data triangulation; participants include M&A and ESG practitioners.

The second criterion, dependability, this addresses consistency of research findings under similar conditions, ensuring the process is repeatable (Lim, 2024). The researcher maintained dependability through detailed documentation of each step, including, code refinement and theme development. The third criterion, confirmability, ensuring that the findings, interpretations and conclusions are rooted in data (Lim, 2024). Confirmability was achieved by the researcher through maintaining raw data in the form of transcripts and using these to develop codes and themes. In addition, the researcher ensured that they were aware of their personal biases and mitigated them through peer checking. The fourth and last criterion is transferability; this is the extent to which the findings can be applied to other contexts (Lim, 2024). Transferability was achieved by providing detailed information of the context and participants so the readers can determine applicability.

4.13 Limitations

While the researcher ensured that the research followed a methodological approach, qualitative research is associated with the researcher's lack of objectivity, as the researcher is susceptible to preconceived notions and prejudices that could influence the findings (Tenny et al., 2021). This limitation is further enhanced by the researcher serving as a primary instrument for data interpretation. Another limitation is the sample size of 17 participants utilised for the study. While the sample provided in depth insights from the two groups, it limits generalisation to the entire population. Furthermore, accessing M&A professionals proved to be challenging, given their response on the lack of consideration for E&S in M&A process. The lack of access limited the participants to six, resulting in a lack of representation across multiple sectors

The research will be limited to M&A and ESG in the South African context. Another limitation is the risk associated with qualitative research, the Additionally, there is a limitation in terms of cross-sectional compared to longitudinal design, because of time constraints, interviews will be conducted at a certain point in time.

5. Findings and Results

5.1 Introduction

Chapter 5 represents key findings of interviews conducted with 17 participants from four sectors. Six interviews were conducted with M&A practitioners (Group 1), and 11 interviews were conducted with ESG practitioners (Group 2). The research aimed at understanding the key challenges M&A practitioners face in incorporating ESG factors into valuation and due diligence process, as well as explore how the integration of ESG adds value post-merger for stakeholders, presented in Chapter 3. Interview guides were used to conduct the semi-structured interviews, and the responses were coded using the ATLAS.ti software to allow for emergence of themes.

This chapter will provide information about the participant groups to better understand their background and interview context. Followed by key themes emerging from the qualitative analysis together with quotes from the participants to provide insights.

5.2 Outline of Participant Groups

This section provides an overview of the participants who contributed to the study. The purpose of this overview is to contextualise the research findings given the participants' experience levels, role, and sector. To preserve the participants anonymity, each participant was given a participant number as presented in Table 3. The respondents interviewed were selected using purposive sampling, based on their experience in the respective fields, outlined in Chapter 4. All interviews were conducted remotely and transcribed using Microsoft Teams.

Table 3: Summary of participants

Group	Code	Role/Position	Sector	Years in Role
Group 1	M&A -P1	Corporate Development Manager	Financial Services	2

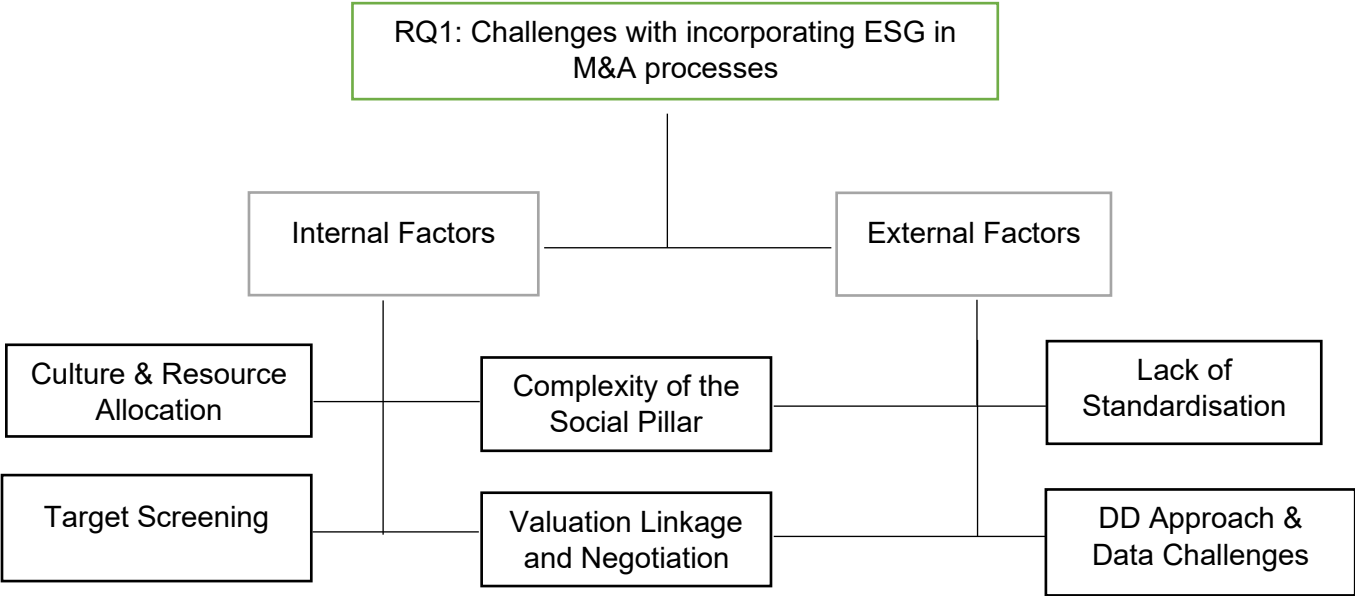
	M&A -P2	Corporate Development Manager	Financial Services	4
	M&A -P3	Transaction Executive	Advisory	5
	M&A -P4	Corporate Development Manager	Beverages	2
	M&A -P5	Strategy and M&A Insights Analyst	Chemicals	2
	M&A -P6	Mergers and Acquisitions Analyst	Advisory	1
Group 2	ESG-P1	Financial Reporting Specialist	Advisory	6
	ESG-P2	Head of Impact	Financial Services	5
	ESG-P3	ESG Associate	Financial Services	2
	ESG-P4	ESG and Impact Lead	Financial Services	3
	ESG-P5	ESG Investor	Financial Services	5
	ESG-P6	ESG Analyst	Financial Services	9
	ESG-P7	Portfolio Manager	Financial Services	5
	ESG-P8	Senior Consultant	Advisory	6
	ESG-P9	Fund Origination Officer	Financial Services	6
	ESG-P10	ESG Risk Analyst	Financial Services	4
	ESG-P11	Investment Specialist	Financial Services	6

The participant pool comprised of 17 participants representing financial services, advisory, beverages, and chemicals sectors.

5.3 Research Question 1: Challenges with incorporating ESG in M&A processes

The first research question sought to identify the key challenges experienced by M&A practitioners in incorporating ESG factors into the M&A process, particularly target identification, due diligence, and valuation. Thematic analysis produced six primary themes: (1) Lack of Standardisation & Framework Fatigue, (2) The Complexity of the Social Pillar, (3) Target Screening, (4) Due Diligence Approach & Data Challenges, (5) Culture & Resource Allocation, and (6) Valuation Linkage and Negotiation.

Figure 5: Overview of results



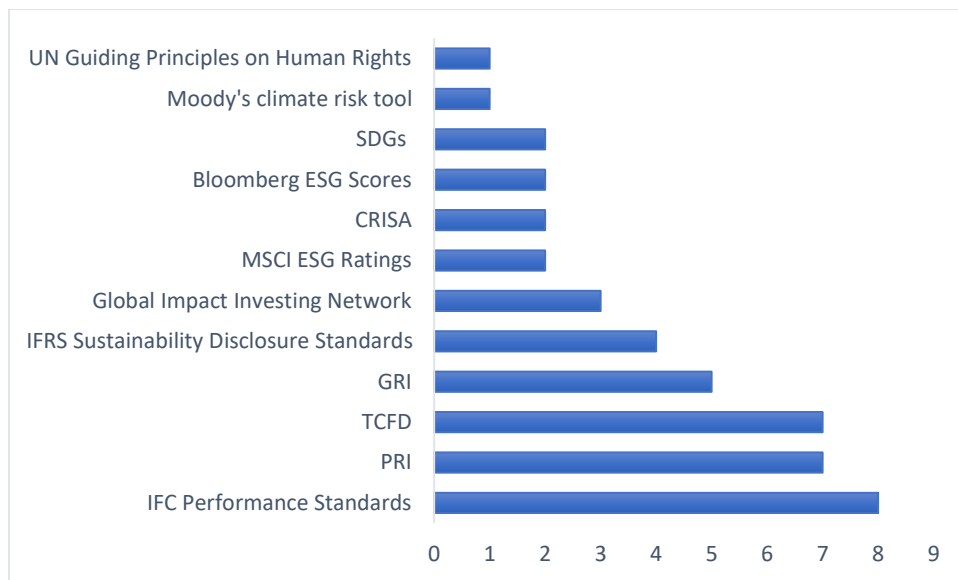
5.3.1 Theme 1: Lack of Standardisation & Framework Fatigue

This theme highlights participants’ frustration regarding the fragmented nature of ESG, which is mainly attributed to the voluntary nature of these guidelines.

5.3.1.1 Sub-theme 1: Lack of Standardisation and Multiple frameworks

Participants highlighted a challenge of the lack of standardisation resulting in companies adopting more than one framework, this is because there is no one framework that speaks to all pillars of ESG. The lack of standardisation results in framework fatigue as ESG investors must familiarise themselves with all these frameworks, see Figure 6. One participant was optimistic about the JSE’s Sustainability and Climate Disclosure Guidelines launched in 2022; these guidelines aim to standardise reporting for listed companies. However, the participant expressed that this guideline is not mandatory.

Figure 6: Number of mentions - ESG framework/standards and ratings agencies



Note. Data provided in the figure above reflect the number of participants who mentioned each framework/standard and rating agencies during the interview.

“Every investor has a specific focus and with that focus comes a different requirement. As a result, [...] firms must adopt the lowest common denominator approach where you must include all of these in an ever-increasing ever-expanding list.” (ESG - P2)

“Everyone is fatigued. There is a new standard every year. Everyone tries to come up with their own framework that everyone should follow, so it would be nice to a one stop shop, so to speak, and everyone could adopt one framework.” (ESG - P4)

“There are quite a lot of standards that are available. And I don't pick one. I like using a conglomerate of them[...], then you are in better chance of developing something that's stronger.” (ESG – P7)

5.3.1.2 Sub-theme 2: Benchmarking Challenges and Inconsistency Reporting

Another challenge highlighted by the participants is that the lack of standardisation often results in incomparable information, making it difficult to benchmarking the target against peers. Some participants spoke to the challenge of inconsistency in reporting, often resulting in inability to track the progress of the company on the pillar.

ESG - P10 expressed frustration and concern regarding a recent benchmarking exercise. The participant noted that, although the company being valued is listed on the JSE, the benchmarking agencies were unable to provide information. This meant that a proxy had to be used, however, the participant noted that proxy data may compromise accuracy of the information, to illustrate the point, the participant remarked that when comparing MIC to S&P results of the proxy, the two systems produced different information.

“But when they are using different frameworks then it becomes difficult to consolidate.” (ESG – P8)

“You have to present the information in a way that it's the same year to year so that I am able to quickly, get the information I'm looking for.” (ESG – P8)

5.3.1.3 Sub-theme 3: Frameworks not Fit for Developing Countries

Some participants spoke to the frameworks and standards often not accommodating local context as their influence is often developing countries. This is because these standards assume established environmental, governance, social systems. ESG investors often use foreign funds to invest in South African companies, these fund providers often prefer that the fund managers use a standard like the IFC performance standards or the GRI.

“Our investors are by and large those of the developmental finance institution communities [...], Those are the types of institutional investors that we have in our fund they prescribe how we assess E&S risks within our portfolio.” (ESG – P2)

“These are not fit for purpose, like GHG protocol that is like the industry standards for calculating emissions. But benchmarks are in Western countries.” (ESG – P5)

“You find that the priorities in South Africa are different, transformation is important to us.” (ESG – P3)

5.3.2 Theme 2: The Complexity of the Social Pillar

Participants identified the social pillar of ESG as the most complex, subjective, and difficult to quantify compared to environmental and governance. Environmental and governance pillars are often quantifiable through emissions data and compliance metrics to King IV and the Companies Act. The participants referenced the B-BBEE Act, discussing the added level of complexity in defining the S pillar. Some respondents were hesitant to comment much on B-BBEE, while they recognised its objective, but they also pointed out concerns about its implementation.

5.3.2.1 Sub-theme 1: Challenges in Quantifying Impact

Both groups of participants expressed the subjectivity in the quantification of the S pillar, and expressed the concern that in a deal setting, it is important to quantify risk. Group 2 participants highlighted that the deal team often requires value attached to the risk they identify and at times it is not that simple. ESG – P3 spoke to how she had to be creative in communicating the potential impact the S pillar by referencing previous case studies like the Marikana massacre. While unorthodox, this method seems to help the deal teams to understand the importance of addressing these risks pre deal conclusion.

“But when it comes to social, you can't put a price on society. You can regulate it by providing guideline, but you can't pull it down to you being the final decision maker for a community.” (ESG – P7)

“Emissions calculations, on the environmental side, are more professionalised. But now you go into the S it becomes very nuanced.” (ESG – P4)

“It is difficult to quantify some social elements.” (ESG – P3)

5.3.2.2 Sub-theme 2: Challenge of Defining the Pillar

One participant noted that their investee companies often refer to the S pillar as transformation, while another participant spoke to the interpretation of employee health and safety, while another spoke to and community initiatives. The lack of understanding often

resulted in investee companies reporting on different metrics. The participants agreed that they often provide an ESG matrix to assist the investee companies with defining each metric and the measurements.

“I don’t think we have cracked the code on S. We currently track the number of females and people of colour on the board.” (ESG – P10)

“For us, social means managing employee relations throughout the M&A process.” (M&A – P5)

5.3.3 Theme 3: Target Identification

The participants revealed that target selection is primarily driven by financial metrics. The financial metrics usually consist of return on investment, profitably, earnings before interest tax, depreciation, and amortisation (EBITDA), and internal rate of return. While financial metrics are key, the targets also mention secondary metrics such as B-BBEE rating, market expansion, product diversification, and portfolio optimisation. The participants noted that target identification is informed by the company’s M&A strategy, which sets out the relevant KPIs and exclusion criteria, such as companies operating in what is classified as sin industries.

“The target must align with our B-BBEE score, so our score remains unaffected.” (M&A – P2)

“We will look at the internal rate of return expected from the transaction and market share expansion.” (M&A – P1)

“We identify targets in line with the customer’s budget. We mostly look at profitability and strategic entry into a certain market.” (M&A – P6)

M&A – P2 mentioned a change in the company’s strategy with the new CEO joining the company. This leadership change led to an adjustment to the M&A strategy, with the company now prioritising the target’s B-BBEE. Previously, this metric was not considered. The

participant noted an understanding of this strategic shift, while expressing concerns regarding some profitable transactions that were not pursued as a result of the new strategy.

Group 2 participants mentioned the importance of ESG metrics, they highlighted that it is not a key mechanism used for target screening. They however mentioned that ESG can be used as a negative screening strategy. The reasons provided by the participants is that they understand that most companies in South Africa have not adopted ESG and for this reason the investment will be made with the aim of improving the target's ESG scores post-merger.

“When we screen deals, we need to ensure that our investments are focused on impact. So, we incorporate IFC exclusion list which was adopted in 2007.” (ESG – P4)

5.3.4 Theme 4: Due Diligence Approach & Data Challenges

5.3.4.1 ESG Due Diligence and Data Challenges

Group 2 participants highlighted that the availability of comparable data presents a challenge when conducting a due diligence on a target. They also stated that a due diligence typically employs a risk-based approach, meaning that the depth of the assessment is dependent on the sector and the risks are prioritised based on materiality. The participants employ different frameworks to assess risk such as the IFC performance standards, TCFS, GRI, King IV, and Companies Act. The methodology employed is an initial desktop exercise to assess high level risks and this is followed by a detailed analysis. In some cases, these functions are often outsourced to specialists, who are familiar with the acquirer's preferred framework. Participants expressed that the outcome from the due diligence is often an action plan to mitigate risks identified, and in extreme cases, the acquirer will walk away from the deal.

“Essentially there are due diligence checklists we utilise because every sector is different, so we have different questions.” (ESG – P4)

“We use the IFC performance standards framework that we use for our due diligence. We typically get external advisors on board to as part of the due diligence. [...] we review their

reports. In most cases, we prefer going to start with them so that we are also part of the process and we also, make sure that we observe as well on site.” (ESG – P11)

“One of the things we're seeing in companies is they were collecting different information on Excel. There was a lot of mistakes and errors.” (ESG – P5)

“Often with SMEs it is hard because that's not information that they are forthcoming with, this is because they don't even keep it, they are focused on trading and making money.” (ESG – P4)

5.3.4.2 Sub-theme 2: Governance and Environmental Pillars

The participants, highlighted that G, is a critical part of the M&A process, M&A – P5 participant noted that deals that do not meet the G pillar are not considered. This is because, as the participants noted, governance is a dealbreaker especially for listed companies as they must comply with King IV codes.

“Governance issues, we definitely do look into because the last thing you want is to find yourself in a situation where you're meeting politically exposed people.” (M&A – P1)

“Nothing gets done without it going through the governance checks, because there are reports to audits and risk committees, so governance is extremely important in everything that we do.” (M&A – P5)

“[...] Yes, governance is a huge part, people walk away from deals if governance risk is identified during the due diligence process.” (M&A – P6)

Regarding the environmental pillar, the participants expressed that materiality is critical, this means looking at the sector the company operates in. M&A – P6 stated that for some of their disposals, the buyer required an environmental assessment, this was something they previously did not consider and have now since incorporated it on their disposals.

“We do get the ESG theme that arises often in the mining space, there's a lot of drive to you know to neutralise carbon emissions.” (M&A – P3)

“We have since come across a lot of environmental requirements, this means performing a phase one EDD, depending on the findings there will be remediation. Sometimes buyers walk away from the transaction based on the EDD results.” (M&A – P5)

5.3.5 Theme 5: Culture and Resource Allocation

Group 1 participants highlighted that E&S are viewed as nice to have and at times treated as secondary, rather than strategic priority to the M&A process. These participants noted that the objectives for engaging in a M&A deal are financial and market share metrics, this disregard for E&S, often impacts the budget allocation to support M&A practitioners.

5.3.5.1 Sub-theme 1: Culture and Low E&S Priority

Group 1 participants highlighted the challenge of culture, and lack of priority in incorporating E&S in M&A activities, while G plays a significant role in M&A. M&A – P1, noted that in her company E&S seem to be a head office initiative and added that time has not been invested in communicating the E&S strategy to the rest of the departments. While M&A – P2 spoke to her company viewing E&S through the transformation lens, maintaining level 1 B-BBEE is crucial for her company. This participant distanced her department and referred to E&S as the responsibility of the CSI/ESG team.

“Oftentimes the E&S component becomes are seen as a theoretical or an academic exercise in many ways.” (M&A – P3)

“I think for me it's an opportunity cost type of question. Because how do I incorporate this? When your time is spent or can be spent on already defined metrics.” (M&A – P1)

“I think it's just about what the primary business is and trying to align with that. And then sustainability is how we need to do that; it's like a secondary thing.” (M&A – P5)

“Our ESG team often look at transformation elements, in terms of B-BBEE.” (M&A – P2)

5.3.5.2 Sub-theme 2: Costs and Resource Challenges

The participants discussed the challenge of costs and resource allocation, highlighting that their companies do not have inhouse ESG specialists. The participants stressed that the inhouse M&A teams are often small and the introduction of E&S would require them to divert attention. ESG - P3 noted that smaller companies tend to lag behind as they do not have the resources to fully implement E&S. In addition, Group 2 participants cautioned of the costs associated with ESG compliance.

“The costs associated with a review of our ESG aspects, is costly and for some companies it is not worth it.” (ESG – P2)

“ESG is not a core part of their business, even some of the biggest firms, you'll see one or two people run in the ESG.” (ESG – P8)

“We currently struggle for resources. Right, my job is doing a significant amount of hand holding so that I can make sure that I upskill the people. Our priority is to improve the company's return on equity.” (M&A – P1)

“We follow the operating principles for impact from the IFC and have independent consultants sign off on our impact metrics. The costs stack up; it would be \$200,000 to \$300,000 a year just in terms of a review of our ESG pillars.” (ESG – P4)

5.3.6 Theme 5: Valuation Linkage and Negotiation

The Group 1 and group 2 participants offered divergent views regarding the role of ESG on the valuation of the company. Group 2 participants highlighted that ESG is merely a risk mitigation strategy and will not impact the target's valuation. The risks identified during the ESG due diligence provide the acquirer with an option to walk away from the deal, this is if the risks are high, or to implement risk mitigation measures post deal completion, for risks that medium or low. Group 1 participants stated that the results from the ESG due diligence

enable the acquirer to negotiate the target's valuation, especially if the risks relate to the environmental pillar.

5.3.6.1 M&A Practitioners Perspective

"If you are working with businesses that have carbon credits, then maybe yes, to an extent your physical valuation can be impacted." (M&A – P3)

"If there are remediation costs identifies during the EDD, these can impact the valuation." (M&A – P5)

"The E&S due diligence outcomes do not impact valuation; these form part of the social action plan. And this would highlight the gaps and corrective actions necessary." (ESG – P2)

5.3.6.2 ESG Practitioners Perspective

"In terms of valuation, the due diligence will not impact the transaction monetary value. However, if there is a debt element to the funding structure, we would increase the cost of debt and remedy once the ESG measures are implemented." (ESG – P3)

"So currently on the equity side, so they do not price the ESG risk. So, it doesn't impact the valuation. If it's something that we think can be improved, we note as a post investment monitoring item." (ESG – P6)

5.3.7 Summary of Findings of Research Question 1

The findings from Research Question 1 indicates that the challenges in incorporating ESG factors to M&A activities are both internal and external. Internal challenges include cultural misalignment and resource allocation; this stems from the company's lack of prioritisation of E&S. Participants also highlighted the subjectivity, varying interpretations, and the difficulties in quantification. The governance pillar is regarded as dealbreaker in M&A.

External challenges relate to the lack of standardisation and numerous frameworks and benchmarking tools, participants referred to this as framework fatigue. This challenge

increases the reporting and compliance burden for companies and often results in difficulties in benchmarking the target against peers. Notably, the participants expressed differing views regarding the role of ESG due diligence findings in impacting target valuation.

5.4 Research Question 2: Post-merger Value Creation for Stakeholders

How can integrating ESG in M&A process impact post-merger value creation for stakeholders?

The aim of this question is to examine how ESG factors can facilitate value creation for stakeholders beyond shareholders, grounded on stakeholder theory. Thematic analysis produced six primary themes: (1) Cost efficiency (2) Stakeholder Trust and Social License to Operate, (3) Risk Mitigation and Deal Protection, (4) Post Merger Management, (5) Talent Retention, and (6) Shift to Mandatory Reporting.

5.4.1 Theme 1: Cost Efficiency

While Group 2 participants spoke to the costs associated with companies adopting ESG, they also recognise the cost efficiency and operational synergies that the acquirer can achieve post-merger. Some of the participants spoke about how expensive noncompliance is compared to adopting and implementing ESG. Participants spoke of measurable benefits associated with ESG and how these often translate to financial performance and company valuation post-merger. From a financial perspective, participants spoke to a reduction in cost of debt, operating cost savings from cleaner energy, and recycling. These savings are not “theoretical” or “academic” as one participant highlighted but translate to the company’s bottom line. ESG – P9 spoke to the challenges they have as fund managers sourcing companies that make a social impact and implement climate friendly solutions. The participants spoke to how ESG can be used to drive operational improvement and enable companies to adopt resource efficient initiatives to help free up cash.

“Value creation would be more around using ESG metrics to drive normal operational improvements, for an example reducing costs through electricity and water costs. The companies would need to monitor progress over time.” (ESG – P1)

“Sourcing cleaner alternative power to help free up cash for working capital facility because we have more cash” (ESG – P3)

ESG – P8 spoke to the opportunity companies have when it comes to banks funding cleaner alternative power sources and further added that this works well for the banks also as they have their own internal KPIs to fund such products. He further added that companies that invest in green products often have a higher valuation, this is because of the reduced cost of capital.

“I guess another benefit is that companies can write off the solar assets against your tax liabilities. So those are the things companies use. Because you can have different green projects that could benefit society.” (ESG – P8)

5.4.2 Theme 2: Stakeholder Trust and Social License to Operate

Participants acknowledged that stakeholder trust and license to operate is becoming increasingly important for businesses. Some participants spoke to a social requirement to engage with and maintain relationships with community members to avoid negative social impact. They further added that companies are required to conduct themselves as good corporate citizens.

ESG – P6 noted that companies often overlooked engaging with communities and often choose to engage with high level authorities like Chiefs who may focus on financial gain rather than the wellbeing of the community. The participant further stated that this level of disconnect often leads to community unrests and negatively impact the company. The participants supported this notion and spoke to how some companies exploiting underserved communities, cautioning that this may backfire and result in reputational damage.

ESG – P11 spoke to the fact that some companies treat ESG as a tick box exercise and as a result customers and communities can see through this. M&A – P1 mentioned that it seems like ESG is a “buzzword” and many companies don’t understand what it means and as a result there are different interpretations of its meaning and implementation. However, if

correctly implemented the participants spoke to strengthened relationships and improved brand loyalty.

5.4.3 Theme 3: Risk Mitigation and Deal Protection

Group 2 participants highlighted the benefits of ESG due diligence in risk mitigation, arguing that this type of due diligence can expose risks that would otherwise be missed during a financial or commercial due diligence. While the participants previously highlighted the challenges in quantifying risks associated with the social pillar, they agreed that an ESG due diligence can impact company reputation. Group 1 participants highlighted that they do see the value of incorporating E&S factors in due diligence. M&A – P1 stated that “You would want to make sure that the environment you operate in, all the products that you are selling are not putting people at more of a disadvantage than they already are.” This sentiment was shared by Group 1 participants.

“Even though I said it's a small G for ESG, for me specifically, G is by far the most important. What we found in that businesses that have good governance structure regardless of if they've got E&S, it is easier for them to implement E&S even if they had nothing.” (ESG – P2)

“Those aspects that I have identified as red flags and see how we can best mitigate those or manage those going into the investment and if we can't, then I'll also flag that and state the risks that we are likely to encounter if we go through with this project [...]” (ESG – P7)

Group 1 participants highlighted the importance of a governance, commercial, and legal due diligence. They specified that their due diligence would not typically include the E&S pillars, E would be considered on a sector and materiality perspective and S from a transformation element. Participants stressed the deal breaker G findings during the due diligence and expressed the protection of the acquirer through the warranties included on the Sale and Purchase Agreement (SPA). M&A – P4 noted that they withdrew from a deal recently because the target was receiving adverse media attention, stating that this would damage the company's reputation.

The inclusion of legal protection through covenants and warranties in the SPA was an important point for all participants. The participants highlighted that this is a key protection for the acquirer and can be punitive on the target to ensure that they address the risks identified during the due diligence process.

5.4.4 Theme 4: Post Merger Management

Group 2 participants highlighted that post investment, the monitoring of compliance to ESG requirements is important. Three participants discussed a 100-day plan structured approach to help the target address the gaps raised during an ESG due diligence. This can be achieved through post-merger education and by getting senior management buy in when it comes to successful implementation of ESG as this helps the companies to formulate KPIs on the E, S, and G pillars.

“And then within that 100 days we would want to agree on those KPIs that we wish to track and then agree on the frequency that we want to track those either quarterly or annually, whatever the case is.” (ESG – P8)

“We have reporting obligations to them to our fund providers, so what we’ve done is that we’ve implemented an ESG matrix for our investees to complete quarterly.” (ESG – P3)

ESG – P4 spoke to analysing trends post investment, this enables the investor to track progress overtime and benchmark the company against other investee companies within the portfolio.

Group 1 participants, except for the two M&A advisors, highlighted that the post-merger management process is in line with the company’s defined metrics prior to engaging on the deal. These metrics are mostly financial, market share, and product diversification. The target will be required to report on the agreed upon KPIs on a quarterly basis. The participants noted that they would not track the G pillar post investment, unless the target was required to implement risk mitigating measures. The

“Once integration is complete, we start reporting on performance, following the template shared with the target. The KPIs depend on the type kind of company, for example life insurance, general insurance or banking.” (M&A – P1)

“Apart from financial metrics, the target must report on their level of B-BBEE, since this is important to us as business.” (M&A – P1)

5.4.5 Theme 5: Talent Retention

Group 2 participants stressed the importance of the S pillar in helping companies with talent retention post-acquisition. They highlighted the role of a motivated and stable workforce in ensuring deal success. ESG – P2 spoke to how the companies treat their employees, staff morale, lower absenteeism, and staff retention as it enables the retention of institutional knowledge.

“It is important for the company to have a positive policy, paying employees well, if there's nice gender parity between male and female staff, good recruitment processes in terms of finding the right mix. In an organisation, high moral, high productivity, lower absenteeism. [...] That's a clear benefit.” (ESG – P2)

M&A – P2 discussed the importance cultural alignment during an M&A transaction. The participant provided an example involving employees leaving early on Fridays, the target emphasised the importance of this to acquirer as employees worked long hours during the week. This approach may help preserve elements of the target’s culture and retain and employee retention.

5.4.6 Theme 6: Shift to Mandatory Reporting

While there is no standardised reporting for companies on ESG, participants spoke to increased and stringent disclosure requirements for governance and environmental pillars. Participant ESG – P6 spoke to the requirements for companies to report their scope 1, scope 2, and scope 3 baseline emissions and track their year-on-year reduction against targets.

Group 1 and 2 participants spoke to the reporting requirements specifically on the G pillar, for listed companies as these companies are required to adhere and apply King IV.

5.4.7 Summary of Findings of Research Question 2

The findings for research question 2 highlighted six ESG value creation enablers for: risk mitigation and deal protection, cost efficiency, stakeholder trust and license to operate, post-merger management, talent retention, and shift to mandatory reporting. According to both groups, stakeholder trust and license to operate is important and an important enabler for deal success. Group 1 participants highlighted the quantifiable cost efficiency value generated by ESG; despite the challenges it poses on the companies. The participants viewed the shift to mandatory reporting as both a pressure and enabler for value creation.

5.5 Participant Group Comparison

Table 5: Participant group comparison

Theme	RQ	Group 1 Participants	Group 2 Participants
Lack of standardisation	RQ1	-	Frustration with the number of frameworks/standards and incomparable data.
Complexity of the Social Pillar	RQ1	Identified Social pillar as transformation and employee relations.	Expressed concerns with difficulties in quantifying the pillar.
Target Screening	RQ1	Highlighted the importance of financial metrics for target screening.	Participants in agreement with Group 1 and added using ESG as negative screening strategy.
Valuation Linkage and Negotiation	RQ1	Stated that EDD enables the acquirer to negotiate the target's valuation.	Identified ESG as a risk mitigation strategy with no impact on valuation.
Due Diligence Approach & Data Challenges	RQ1	Importance of governance due diligence and sector	Highlighted challenges with data availability.

		specific environmental due diligence.	
Culture & Resource Allocation	RQ1	E&S often seen as nice to have or secondary.	Acknowledged the high costs associated with implementation and compliance to ESG.
Risk Mitigation and Deal Protection	RQ2	Saw value in incorporating ESG as a risk mitigation strategy.	ESG due diligence exposes risks that would be missed.
Cost Efficiency	RQ2	-	Identified quantifiable cost benefits for implementing ESG.
Stakeholder Trust and License to Operate	RQ2	Highlighted the importance of stakeholder trust.	Emphasised the increasingly importance of stakeholder engagement.
Post-merger Management	RQ2	Post merger monitoring stressed financial performance	Stressed importance of post investment monitoring
Talent Retention	RQ2	-	Highlighted the role of the social pillar in talent retention.
Shift to Mandatory Reporting	RQ2	Reporting on King IV and B-BBEE	Note a shift towards stringent disclosure requirements.

5.6 Conclusion

The chapter presented the findings from the two research questions posed in Chapter 3, drawing from the perspectives of both M&A and ESG practitioners. The findings revealed a complex landscape of internal and external challenges experienced by both groups. While governance was regarded by both groups as a deal breaker, the social and environmental pillars were subject to interpretation and influenced by context and materiality. Participants views diverged on the influence of these factors on the target valuation.

On value creation, M&A practitioners identified the value of integrating ESG, especially when referring to stakeholder engagement. The participants identified important value contributing

factors from ESG, including risk mitigation, talent retention, cost efficiencies, and a shift to mandatory reporting. These benefits however are directly impacted by the findings in research question 1. While most of the questions were addressed by ESG practitioners, the findings will assist M&A practitioners in extracting value from ESG, once internal challenges are overcome.

These findings provide an understanding of ESG integration challenges within the M&A process in South Africa. The next chapter interprets these results in the context of existing literature.

6. Discussion of Results

6.1 Introduction

This chapter will discuss the findings presented in Chapter 5, drawing from data obtained from semi-structured interviews with M&A and ESG practitioners. It examines similarities or contradictory views between themes and subthemes, relating them to academic literature presented in Chapter 2. The research explored the challenges faced by M&A practitioners when integrating ESG factors into the M&A process and identified opportunities for post-merger value creation for stakeholders through the application of ESG factors.

6.2 Research Question 1: Challenges in Incorporating ESG Factors in M&A

Research Question: What are the primary challenges in incorporating ESG factors in M&A process (target identification, due diligence, and valuation)?

The purpose of the research question was to gain an understanding of the key challenges in incorporating ESG factors in the M&A process. The study revealed six factors, such as lack of standardisation and framework fatigue, the complexity of the social pillar, target identification, due diligence approach and data challenges, culture and resource allocation, and valuation linkage and negotiation.

6.2.1 Lack of Standardisation and Framework Fatigue

Group 1 participants identified a challenge of the numerous ESG frameworks and standards, which often leads to “framework fatigue” and confusion. They reported that they often use multiple frameworks as no single framework addresses all ESG factors; examples include the IFC Performance Standards, King IV, PRI, TCFD, and GRI, which were the top five frequently mentioned. This lack of standardisation can increase transaction time as the acquirer needs to understand the target’s framework, make benchmarking challenging, and contribute to inconsistent reporting.

Multiple studies highlight the lack of standardisation as a challenge in ESG, resulting in multiple frameworks and standards. Bohn et al. (2024) referred to these as the “alphabet soup”. The lack of standardisation increases the risk of greenwashing (An et al., 2024), compromises the quality of the due diligence process (Amel-Zadeh & Serafeim, 2018), and often results in comparability and benchmarking challenges (Christensen et al., 2021). The literature further notes that voluntary reporting can affect the ability to perform year-on-year comparison, making it difficult to track the target’s progress (Bohn et al., 2024).

The findings align with the literature, identifying standardisation as a barrier to ESG integration. However, South African companies are required to comply with B-BBEE for transformation and King IV for corporate governance, resulting in increased frameworks and standards to navigate. From this context, the insights extend theory, highlighting a unique challenge that suggests existing ESG frameworks and standards may not be fit for purpose. This is because these frameworks and standards often assume established systems and fail to account for local legislation and standards. The introduction of CRISA aimed at mitigating this gap, however, participants highlighted that they must adhere to the fund provider’s guidelines, often IFC performance standards or the GRI.

6.2.2 The Complexity of the Social Pillar

When the participants were asked about how they define and measure the S pillar, they expressed challenges regarding the subjectivity and difficulty in quantifying the pillar.

The subjectivity of the pillar resulted in participants assigning different definitions. Some participants defined the pillar as transformation, particularly incorporating gender and diversity representation. Other participants stressed the importance of employee matters, such as fair remuneration and safe working conditions. Others spoke about community engagement, lastly the participants spoke to the target’s supply chain their labour practices and community engagement.

Multiple studies highlighted the difficulty in quantifying the S pillar, which is due to the lack of alignment in measurement and methodology (Berg et al., 2022; Rau & Yu, 2023). This often

results in difficulty in conducting a social due diligence (David, 2024) and social washing because of voluntary disclosure (Fan et al., 2022).

While the findings regarding the subjectivity of measuring the S pillar align with the literature, participants expressed confusion in defining the pillar. The definition of the S pillar was not discussed in Chapter 2, suggesting a gap in the definition of the S pillar between developed and emerging economies, specifically South Africa. This is because of the country's unique transformation Act, the B-BBEE. One possible reason for this gap is that previous studies focused on developed economies. As such, it expands the knowledge gap, requiring further exploration of the definition of the S pillar in South Africa and extends the theoretical application of stakeholder theory as the target may not effectively balance competing stakeholder priorities impeded by the lack of alignment in defining this pillar.

6.2.3 Target Identification

Participants mentioned financial metrics as the key consideration for target identification. While Group 2 participants mentioned the use of ESG as a negative screening strategy, financial metrics are a key consideration for target identification. Given the lack of maturity of ESG adoption compared to developed countries. Participants also noted transformation as an important non-financial metric.

Literature supports the findings from the interviews. Rask (2024) identified financial metrics as a key consideration in M&A. Scholars also identify the incorporation of ESG factors in M&A strategy, with companies using these factors as a method for negative screening (Amel-Zadeh & Serafeim, 2018). Junni & Teerikangas (2019) Cautioned against the high M&A failure associated with inadequate target selection.

This finding supports traditional M&A literature, highlighting the prioritisation of financial metrics in M&A. However, the finding deviates from the strategic shift of incorporating ESG in target identification as risk mitigation and sustainable stakeholder value creation. Group 2 participants observed that the majority of the investments do not usually meet ESG metrics; however, after assessing risk, an investment is made, and the target will be required to

implement these metrics. This increases the burden not only on the practitioners but the target.

6.2.4 Due Diligence Approach and Data Challenges

A key challenge identified by participants when conducting an ESG DD is data availability, stating that the lack of reliable information makes conducting due diligence challenging. The participants often rely on inconsistent or unavailable data regarding small companies; this often results in stringent legal clauses on the sale and purchase agreements to mitigate risk exposure. Another challenge arises from the inconsistency of data provided by ESG rating agencies and the limited number of South African companies listed; as a result, participants often use a proxy to benchmark the target. Both participant groups spoke to the critical role of governance in the investment cycle, stating that a governance due diligence is a deal breaker. One participant referred to the G pillar as an enabler for the successful implementation of E&S.

Studies note that the lack of standardisation often results in unavailable and low-quality data, compromising the due diligence (David, 2024). This challenge is heightened by the differing methodologies applied by ratings agencies, typically reaching a different conclusion for the same company (Martiny et al., 2024). The literature further highlighted the importance of governance due diligence and its role in reducing the agency problem (Wang et al., 2021). Taplin (2021) highlighted the maturity of the G pillar in South Africa, enabled by King IV codes and the Companies Act.

The findings, consistent with the literature, identify data challenges as a barrier to conducting an ESG due diligence, which may impede the quality of ESG due diligence conducted. While the participants and literature support a mature G pillar in South Africa, this assessment applies to companies listed on the JSE. This finding supports agency theory, highlighting the importance of sound internal controls and governance structures. However, there is a trend observed of companies delisting from the JSE, exposing the acquirer to agency.

6.2.5 Culture and Resource Allocation

Literature indicates a strategic shift in M&A towards ESG, as an enabler to gain stakeholder support during the M&A process (Zheng et al., 2023). Susen (2024) further noted that ESG has evolved to be a core aspect of corporate strategy. The finding reveals a disconnect between the two groups interviewed. The M&A practitioners referred to ESG as either secondary, nice to have, shifting the responsibility to the CSI/ESG team, or a theoretical exercise. According to the participants, the M&A teams are often small, resulting in resource allocation challenges. The participants also highlighted the cost associated with complying with ESG (An et al., 2024).

While research incorporated challenges relating to the S pillar and costs associated with ESG disclosure, the findings highlighted cultural alignment and resource allocation as challenges faced by M&A practitioners in South Africa. This finding suggests a gap in incorporating E&S in corporate strategy, resulting in a lack of alignment, no resource allocation and missed opportunities. This study extends the theory and highlights organisational culture and resource allocation as an underexplored challenge in incorporating ESG in M&A activities. Further research is needed to validate and expand on this finding.

6.2.6 Valuation Linkage and Negotiation

Diverging views were provided by the two groups. Group 2 participants stated that the ESG due diligence findings do not impact the valuation of the target. This group of participants spoke to the differing maturity levels in companies when it comes to adopting ESG. This means not penalising the target by way of reducing the valuation. This often results in the findings being incorporated into the sale and purchase agreement and tracked post-merger.

Group 1 participants held a different view regarding environmental due diligence, stating that the costs of remediation may impact the target's valuation. One participant spoke about a recent disposal, part of the EDD was to perform an environmental assessment, the findings from the EDD displayed contamination, this meant that the acquirer reduced the valuation with the remediation cost.

The literature notes the lack of clarity regarding ESG metrics as a barrier to incorporating due diligence findings into target valuation (Galpin & De Vibe, 2024). In relation to EDD, sector specific requirements apply, with companies in mining, construction, and energy are subject to greater environmental regulation (Apergis et al., 2022).

These findings align with literature, highlight the complexity of ESG metrics and demonstrate that there is no single method for addressing these metrics. The pillars face distinct challenges, some metrics require different considerations in line with the context, while others are assessed based on their materiality.

6.2.7 Summary of the Discussion of Research Question 1

A summary of findings for research question 1 is presented in Table 6 below.

Table 6: Themes and Literature Mapping

Theme	Presence in Literature	Author	Alignment/Gap description
Lack of Standardisation & Framework Fatigue	Strong Presence	Amel-Zadeh & Serafeim (2018); An et al. (2024); Bohn et al. (2024); Christensen et al. (2021); Galpin & De Vibe (2024); Narula et al. (2024)	Consistent with findings.
The Complexity of the Social Pillar	Partial	Apergis et al. (2022); Berg et al. (2022); Bose et al. (2021); Fan et al. (2022); Rau & Yu (2023)	Partially covered, opportunity to incorporate local context.
Target Identification	Strong Presence	Amel-Zadeh & Serafeim (2018); Angwin et al. (2022); Galpin & De Vibe (2024); Junni &	Partially covered, opportunity to incorporate local context.

		Teerikangas (2019); Rani et al. (2020), Rask (2024)	
Due Diligence Approach and Data Challenges	Strong Presence	Amel-Zadeh & Serafeim (2018); Baran et al. (2022); Berg et al. (2022); Christensen et al. (2021); David (2024); Galpin & De Vibe (2024); Gangi & Varrone (2018); Li et al. (2021); Martiny et al. (2024); Zaroni et al. (2025)	Consistent with findings.
Culture and Resource Allocation	Absent	-	Not addressed in prior ESG-M&A literature.
Valuation Linkage and Negotiation.	Strong Presence	Angwin et al. (2022); Bauer & Friesl (2022); Galpin & De Vibe (2024); Junni & Teerikan; gas (2019)	Consistent with findings.

6.3 Research Question 2: Post-merger Value Creation for Stakeholders

Research Question: How can integrating ESG in M&A process impact post-merger value creation for stakeholders?

The aim of this question is to examine how ESG factors can facilitate value creation for stakeholders beyond shareholders, grounded on stakeholder theory. the study revealed five factors, such as cost efficiency, stakeholder trust and social license to operate, risk mitigation post-merger management, talent retention, and shift to mandatory reporting.

6.3.1 Cost Efficiency

Group 2 participants consistently identified a cost efficiency as a key benefit resulting from effective ESG integration post-merger. Interviews revealed that companies that implement ESG initiatives in energy, water management, and waste reduction can achieve quantifiable savings. Another benefit provided by the participants is a reduced cost of debt, resulting in increased target valuation post-merger.

Literature supports the link between high ESG performance and financial performance, resulting in operational cost savings and improved profitability (Apergis et al., 2022). Armstrong (2020) argued that ESG performance translates to reduced cost of capital and can improve the company valuation. However, Renneboog & Vansteenkiste (2019) suggests that the value creation is often short-term and not sustainable in the long-term.

The findings support literature, that effective ESG performance results in cost efficiencies. The underlying mechanism appears to be intentional implementation of ESG, rather than treating it as a tick box exercise. However, some participants cautioned of the high costs with ESG compliance and smaller companies may struggle with affordability. While ESG compliance may offer quantifiable benefits, there is a cost barrier associated with its implementation, reporting, costs to associated with membership to a network, and ESG audit costs. In addition, this finding highlights that the quantifiable cost efficiencies relate to environmental factors such as energy savings and recycling, as well as and governance factors like the cost of debt. This further highlighting the challenge of quantifying the S pillar raised in research question 1.

6.3.2 Stakeholder Trust and Social License to Operate

Participants identified effective stakeholder management as a critical element to M&A post-merger success. Interview data revealed that companies implementing ESG leverage stakeholder trust as an effective risk mitigation against reputational damage. Other benefits highlighted are customer retention, improved investor engagement, internal support, gaining support from communities, and better relationships with suppliers.

Literature highlights a shift from shareholder focus to stakeholder management during an M&A activity; enabling the acquirer to build trust and maintain reputation (Junni & Teerikangas, 2019). By leveraging the social pillar companies can engage internal and external stakeholders throughout the M&A process (Bose et al., 2021). Mensah et al. (2022) cautioned companies of the adverse implications of stakeholder neglect.

The results from the study support the view that ESG is an enabler for stakeholder trust and can assist companies to gain a license to operate from stakeholders. However, companies must leverage the social pillar to realise this benefit; an effort complicated by an ongoing challenge in clearly defining the S pillar. One participant noted concerns regarding engaging appropriate stakeholders, cautioning against engaging people in senior positions who might not act in the best interest stakeholders. This is a direct consequence of the challenges in defining the S pillar raised in research question 1.

6.3.3 Risk Mitigation and Post-Merger Management

According to the participants, risks identified during the due diligence are included in the sale and purchase agreement and monitored post-merger. The monitoring of the findings is by way of an action plan given to the target to implement with timelines. Both Groups stated that reporting of the defined metrics is often quarterly or annually, aligned with the acquirer's reporting timeline. Group 1 participants noted that they track financial measures, while Group 2 participants track ESG metrics.

The findings strongly align with literature, highlighting accounting-based measures to monitor post-merger performance (Palm et al., 2023). Vinocur et al. (2022) criticised financial metrics highlighting their short-term view lacks strategic analysis. However, by integrating strategic and financial measures, the acquirer has a holistic view of the target (Fuad & Venugopal, 2023).

The findings from the study align with the literature, emphasising the importance of post-merger monitoring. Divergent views were noted, with participants tracking different metrics that define risk mitigation and post-merger management. This reflects the priorities by the two participant groups, while both have their limitations, combining these metrics enables risk

mitigation and post-merger management. It is worth noting that legal protection for the acquirer post investment was not discussed in Chapter 2. This is an important aspect of M&A enabling the acquirer to implement appropriate post-merger risk mitigation.

6.3.4 Talent retention

Participants identified the benefits of leveraging the S pillar as a benefit for human factor and post-merger success. Findings revealed that acquirers who treat employees fair prioritise employees buy in during post-merger. This is usually achieved through an effective HR department, safe working conditions, diversity and inclusion, whistle blowing policies, and training and development. The participants described how companies that prioritise employee treatment during an M&A process benefit from culture fit and reduce the risk of losing employees.

Literature supports the role of managing human factors by leveraging the S pillar to assist with post deal success (An et al., 2024). Angwin et al. (2022) highlighted the integral role played by employees in ensuring the realisation of the practical benefits of the merger. This is because ESG incorporation supports improved productivity and enables the company to attract high calibre employee (Zhong et al., 2022).

The findings support the benefit of the S pillar in employee retention and post-merger success. Effective employee communication during and post M&A is the mechanism in which the company can retain employees and realise benefits from the merger. However, the subjectivity in defining this pillar, impedes the acquirer from realising this benefit.

6.3.5 Shift to Mandatory Reporting

Participants note a shift from voluntary to mandatory reporting for the E and G pillars. Interviews revealed the requirement for companies to report the baseline scope 1, 2, and 3 emissions. In addition, JSE listed companies are required to comply and report on their compliance and application of King IV.

Literature highlights an evolution from voluntary to mandatory reporting for the environmental pillar (Teti et al., 2022). From a local context, companies listed on the JSE are required to comply and report on King IV (Nel et al., 2025).

The results are consistent with literature, indicating that ESG reporting is transitioning from voluntary reporting. However, due to the lack of standardised reporting guidelines, companies may omit unfavourable information, another challenge is calculating scope 3 emissions. Without established guidelines to assist companies with presenting ESG information, the quality of data reported may be insufficient to track progress. This finding extends theory, highlights the lack of progress made on the S pillar, compared to the E and G pillars.

6.3.6 Summary of the Discussion of Research Question 2

A summary of findings for research question 2 is presented in Table 7 below.

Table 7: Themes and Literature Mapping Research Question 2

Theme	Presence in Literature	Author	Alignment/Gap description
Cost Efficiency	Strong Presence	Apergis et al. (2022); Armstrong (2020); Zhong et al. (2022)	Consistent with findings.
Stakeholder Trust and Social License to Operate	Strong Presence	Alves & Meneses (2024); Apergis et al. (2022); Bose et al. (2021); David (2024); Freeman et al. (2020); Zheng et al. (2023); Zhong et al. (2022)	Consistent with findings.
Risk Mitigation and Post-merger management	Partial	Fan et al. (2022); Palm et al. (2023); Rani et al. (2020); Vinocur et al. (2022)	Partially covered, opportunity to incorporate legal protection for the acquirer.

Talent retention	Strong Presence	An et al. (2024); Junni & Teerikangas (2019); Liang et al. (2021); Mensah et al. (2022); Zhong et al. (2022)	Consistent with findings.
Shift to Mandatory Reporting	Partial	An et al. (2024); Apergis et al. (2022); Christensen et al. (2021); Garcia et al. (2017); Teti et al. (2022)	Partially covered, opportunity to research mandatory requirements on the S pillar.

6.4 Practical Implications of the Research Questions

The findings from the research questions highlight two key barriers to integrating ESG to M&A process. These barriers impact the pre and post deal process and relate to the lack of standardisation and the complexity of the social pillar. Impacting: the quality of due diligence conducted, benchmarking, valuation linkage and negotiation, stakeholder trust and social license to operate, talent retention and shift to mandatory reporting.

A challenge highlighted by M&A practitioners not included in literature, relates to an internal challenge of culture and resource allocation. While literature spoke to ESG as a strategic foundation to corporate development, this finding suggests that South African M&A practitioners do not share this view. Highlighting a unique challenge to developing countries that needs to be further researched.

Divergent views were present relating to the influence of ESG pillars to target valuation; M&A practitioners emphasised the significance of the environmental pillar, whereas ESG practitioners did not express the same view. This finding highlights the complexity of each pillar heightened by lack of alignment.

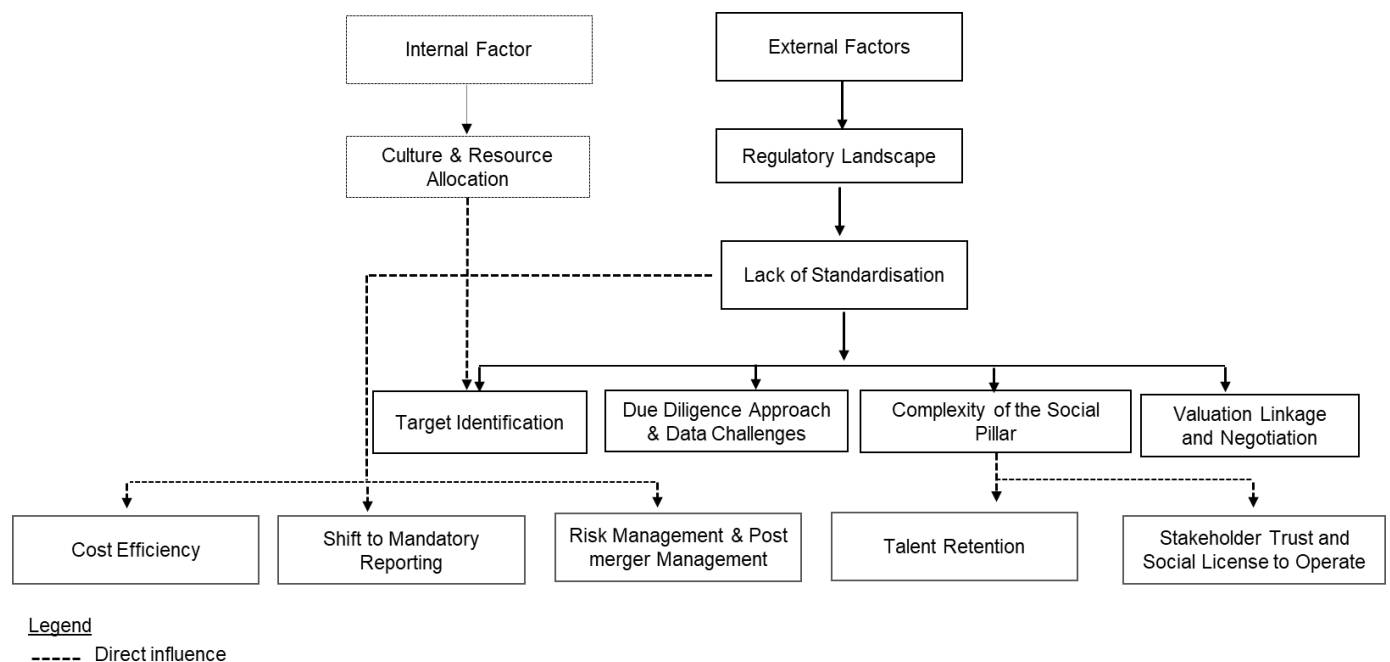
The challenges highlighted in research question 1 impedes value realisation for stakeholders. With some frameworks not being fit for purpose in South African, as well as a unique

challenges such as the B-BBEE Act, these issues are further intensified. However, they also emphasise opportunities that can be realised in the country.

6.5 Conclusion

The findings presented in this chapter highlight how the challenges identified in research question 1 impede the realisation of stakeholder value identified in research question 2, summarised in Figure 7. The study provides practical insights into the unique context of South Africa, highlighting culture and resource allocation as well as the country's unique challenges regarding the definition of the S pillar. These findings extend the theoretical gap in the definition of the S pillar as well as highlighting organisational culture as an underexplored barrier in prior M&A literature.

Figure 7: Conceptual diagram



Note. Figure 7 above illustrates the direct impact of the lack of standardisation of ESG frameworks on the identified finding, as well as the influence culture in target identification.

7. Conclusion and Recommendations

7.1 Introduction

South Africa is regarded as the M&A hub of Africa, accounting for 60% of deal value and 30% deal volume (Herbert Smith Freehills, 2025). The continent's largest deal amounting to \$3.5 billion was concluded in 2024. While the country is attracting significant deals in the continent it is also the most unequal country in the world with a Gini coefficient of 0.63 (Chininga et al., 2024), ranked as the largest emitter of carbon in Africa (Emmerson et al., 2023), with a corruption index ranking of 82nd out of 180 countries (Trading Economics, 2020).

Despite the challenges the country faces, there are no studies exploring the integration of ESG in M&A. Effective ESG integration in M&A will not only enable M&A practitioners to comply with regulatory and legislative requirements, but also enables the company to mitigate against risks, reduce agency conflict, improve financial performance and improve alignment with stakeholders to ensure a smooth post-merger integration (Angwin et al., 2022; Apergis et al., 2022; Feyisetan et al., 2025; Galpin & De Vibe, 2024). For this reason, the study explored the challenges experienced by M&A practitioners in incorporating ESG factors in the M&A process as well as the role of ESG in value creation for stakeholders.

This chapter will discuss the research findings drawn from the qualitative study, discuss their implications for theory and business, design an empirical model for effective implementation of ESG in M&A, highlight the limitations, and suggest areas of future research.

7.2 Research Findings

The role of effective integration of ESG in M&A is seen as a strategic risk management enabling a smooth post-merger integration and the creation of value for stakeholders (Angwin et al., 2022; Galpin & De Vibe, 2024). However, the adoption of ESG has been lacking in emerging economies (Feyisetan et al., 2025) highlighting an opportunity to explore the challenges of integrating ESG M&A process. Literature however highlighted challenges relating to the lack of standardisation (Feyisetan et al., 2025), quality of data availability and benchmarking (Galpin & De Vibe, 2024), and the inability to quantify the S pillar (Berg et al., 2022).

This qualitative research answered the two research questions and the findings for each question are presented in this section.

7.2.1 Key Challenges in Integrating ESG in M&A Process

The study identified six challenges in integrating ESG in M&A process: lack of standardisation and culture and resource allocation. These challenges however can be summed up to two key challenges. Lack of standardisation has a direct impact on the complexity of the social pillar, due diligence and data challenges, and valuation linkage and negotiation. While culture and resource allocation has a direct impact on target identification.

The frustration expressed by the participants regarding the fragmented nature of ESG was evident, citing the voluntary nature being a contributor. The lack of standardisation impacts the quality of due diligence and benchmarking as well as the valuation of the target. Amel-Zadeh & Serafeim (2018) found that the lack of standardisation limits the integration of ESG into valuation and financial modelling. While Galpin & De Vibe (2024) highlighted the challenges relating to comparability, data quality and the impact on due diligence. This finding also highlights the need for a fit for purpose framework in developing economies.

A significant internal challenge mentioned by the participants is cultural misalignment and a lack of priority given to the E&S pillars. Except for environmental pillar being regarded on a sector basis, the pillars are seen as a nice to have. The disregard of E&S pillars directly impacts target identification, as these would not be incorporated into M&A strategy, revealing a disconnect in corporate strategy. This finding highlights an underexplored, yet significant internal barrier to ESG integration in M&A activities, specifically in developing countries.

The findings identified in research question 1 suggest that the integration of ESG in the M&A process is impacted by both internal and external factors. These barriers have a direct impact on companies' realising the benefits of ESG, positioned in research question 2.

7.2.2 Post-merger Value Creation for Stakeholders

Six findings were identified demonstrating the potential value creation from effective ESG integration post-merger.

The subjectivity of the social pillar presented in research question 1 has a direct impact on the talent retention, stakeholder trust and license to operate, and shift to mandatory reporting. These benefits rely on the company leveraging the social pillar pre- and post-merger. An et al. (2024) identified the benefits of leveraging the social pillar to address cultural conflicts and improve talent retention. ESG is underpinned by stakeholder theory, relying on managers balancing competing priorities (Feyisetan et al., 2025). However, if managers face challenges with defining the social pillar, it may be difficult for them to balance competing priorities or have meaningful engagements with stakeholders impacting post-merger success.

The lack of standardisation challenge presented in research question 1, impacts the company's risk management and post investment management processes. The quality of the due diligence informs the acquirer's risk management strategy and post investment management (Amel-Zadeh & Serafeim, 2018). If this is compromised as a result data quality, there is a possibility that greenwashing risks may not be identified by the acquire.

Effective ESG integration results in a quantifiable cost efficiency, however, some academics note the short-term nature of this benefit (Renneboog & Vansteenkiste, 2019). These quantifiable cost efficiencies are associated with the environmental and governance pillars, highlighting the complexity of quantifying the social pillar. A pattern that emerged from the responses is that participants identified funding opportunities for companies that invest in greener energy solutions and highlighted the post-merger increase in valuation of the target. This valuation target can be achieved through the reduction of cost of capital (Alves & Meneses, 2024).

The findings illustrate the importance of ESG in post-merger value creation for stakeholders. However, these benefits are impeded by the barriers identified in research question 1.

7.3 Implications for Managers

Research highlights the role of ESG in M&A as a risk mitigation tool and post-merger value creating strategy for stakeholders. The results from the study highlighted internal and external challenges impeding stakeholder value creation post-merger.

The research findings highlights that M&A practitioners view the governance pillar as a critical risk mitigation tool against agency conflict. However, the integration of E&S factors remains insufficient; effective integration requires strategic prioritisation by management as evidenced by the governance pillar. This means incorporating E&S factors into the company's corporate and M&A strategy. The implications are that the company will undergo an organisational culture shift, that needs to be managed by leveraging the social pillar. This means management must commit to a budget for resource allocation, incorporate predefined E&S metrics into KPIs. The challenge presented in research question 1 of defining the social pillar, presents an opportunity for management to leverage the governance pillar as an important foundation. An initial point if for manager to explore CRISA, a local framework incorporating King IV and B-BBEE.

The fragmented nature of ESG means that there is no single framework that addresses all pillars. This is essential for risk mitigation and successful post-merger integration. Research findings highlight the need for a standardised framework for reporting uniformity, benchmarking, and year on years progress tracking. However, given the challenges of developing countries, where systems are not established, this standard might not be fit for purpose. Based on the interview findings, there is a need for the standard must be tailored for the complexity of South Africa, given the legislative landscape.

7.4 The Limitation of the Study

A primary constraint to the study is the limited number of M&A participants interviewed. When the participants were contacted, they expressed that ESG is not a consideration in their M&A activities, and their area of focus is financial and commercial viability. This limitation resulted in an imbalanced view, with six interviews conducted with M&A practitioners compared to eleven interviews with ESG practitioners.

The second limitation noted is that some of the participants were reluctant to express their view on the social pillar, specifically B-BBEE. With some participants stating that they would not want to be misunderstood. This statement introduces a risk that the data collected may not be reflective of the participants perspective.

A third limitation is that the interviews with participants were conducted online, making it more challenging to read and interpret nonverbal cues which are often important in qualitative research.

Lastly, the M&A participants interviewed represented were predominantly in financial services and advisory, with some sectors not presented. The findings may not fully capture the challenges experienced across all sectors in M&A.

7.5 Recommendations to Future

ESG maturity differs between emerging and developed economies, largely due to more established systems in developed economies. This challenge intensifies the already existing challenges with effective ESG integration. The study identified culture and resource allocation as an underexplored challenge in incorporating ESG in M&A process. This finding presents a gap in existing literature, specifically in emerging economies. Another area for exploration is the definition of the social pillar between developed and emerging economies. This finding expands the existing gap of the subjectivity with the social pillar.

7.6 Conclusion

The purpose of the exploratory qualitative research confirmed ESG benefits of cost efficiency, risk management and merger management, talent retention, and stakeholder trust are impeded by internal organisational culture and external lack of standardisation of ESG frameworks. The research also identified specific challenges in interpreting the social pillar because of legislative nuances and contributed to growing the body of knowledge.

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9. Appendices

9.1 Appendix 1: Consistency Matrix

Research Questions	Literature	Interview Guide
RQ1: What are the primary challenges in incorporating ESG factors in M&A process (target identification, due diligence, and valuation)?	Junni & Teerikangas (2019); Zhong et al (2022); Angwin et al. (2022)	Q2 to Q7
RQ2: How can integrating ESG in M&A process impact post-merger value creation for stakeholders?	Galpin & De Vibe (2024); Alves & Meneses (2024); Apergis et al. (2022); Bose et al. (2021)	Q8 to Q14

9.2 Appendix 3: Informed Consent Form

Research Study Consent Form

I am currently a student at the University of Pretoria's Gordon Institute of Business Science and completing my research in partial fulfilment of an MBA. I am researching the challenges companies face in integrating ESG factors into M&A due diligence and valuation, and how these factors influence post-merger value creation for stakeholders.

The interview is expected to last forty-five minutes to one hour to help us understand the integration of ESG in M&A process. Your participation is voluntary, and you can withdraw at any time without penalty. By completing the interview, you indicate that you voluntarily participate in this research. All data will be reported without identifiers. If you have any concerns, please contact my supervisor or me. Our details are provided below

Researcher Name:

Email: 12309622@mygibs.co.za

Phone:

Research Supervisor Name: Ngwako Sefoko

Email: nsefoko@gmail.com

Phone: 0723684415

Signature of Participant: _____

Date:

Signature of Researcher: _____

Date:

9.3 Appendix 4: Interview Guide for ESG Practitioners

Semi-Structured Interview Guide

Background

1. Please describe your current role and experience in ESG.
2. In your experience, what are the drivers for companies engaging in M&A activity?
3. In your experience, how has the landscape of ESG considerations evolved within the broader corporate and investment environment?

Challenges in incorporating ESG in due diligence and valuation processes

4. How do you typically approach the assessment of ESG factors in potential M&A targets specifically the due diligence and valuation?
5. What are the primary challenges companies face when attempting to integrate ESG factors into the due diligence and valuation process of M&A transactions?
6. What specific ESG data, metrics, or indicator do you find most important during the due diligence and valuation phases of an M&A transaction? Could you provide examples? How do you access this data?
7. What challenges have you encountered concerning the clarity and standardisation of ESG metrics, data, and frameworks during due diligence and valuation processes in M&A transactions? In what ways do these challenges affect your assessments?

Impact of integrating ESG in M&A post-merger value creation and stakeholder alignment

8. In your opinion, how does the effective integration of ESG factors during the M&A process contribute to post-merger value creation (cost savings, revenue growth, risk reduction, brand reputation)?
Could you provide examples of how this value is realised?
9. How do you measure or observe the impact of ESG integration on post-merger value? Are there specific indicators or outcomes you look for?
10. How does the attention to ESG factors during an M&A transaction influence relationships with various stakeholders (e.g., employees, customers, suppliers, regulators, communities)?

11. Are there specific ESG initiatives or practices that you've observed to be particularly effective or ineffective in driving post-deal value or stakeholder alignment?

Concluding questions

12. Based on your experience, what are your recommendations for companies looking to overcome the challenges of integrating ESG into their M&A strategies?
13. How do you see the role of ESG evolving in M&A activities over the next 5-10 years?
14. Is there anything else you would like to add regarding ESG integration in M&A that we haven't covered, or any final thoughts you'd like to share?

9.4 Appendix 4: Interview Guide M&A Practitioners

Semi-Structured Interview Guide

Background

15. Please describe your current role and experience relating to M&A.
16. In your experience, what are the drivers for companies engaging in M&A activity?
17. In your experience, how has the consideration of non-financial factors, like environmental, social, and governance issues evolved in M&A over the past few years?

Challenges in incorporating ESG in due diligence and valuation processes

18. To what extent are ESG factors currently incorporated into your company's M&A due diligence and valuation processes?
19. How do you typically approach the assessment of ESG factors in potential M&A targets specifically the due diligence and valuation?
20. From your perspective, what are the most significant challenges companies face when trying to incorporate ESG factors into the due diligence and valuation phase of an M&A process?
21. What specific ESG data, metrics, or indicator do you find most important during the due diligence and valuation phases of an M&A transaction? Could you provide examples? How do you access this data?

Impact of integrating ESG in M&A on post-merger value creation and stakeholder alignment

22. In your opinion, how does the effective integration of ESG factors during the M&A process contribute to post-merger value creation (cost savings, revenue growth, risk reduction, brand reputation)?
- Could you provide examples of how this value is realised?
23. How do you measure or observe the impact of ESG integration on post-merger value? Are there specific indicators or outcomes you look for?
24. How does the attention to ESG factors during an M&A transaction influence relationships with various stakeholders (e.g., employees, customers, suppliers, regulators, communities)?
25. Are there specific ESG initiatives or practices that you've observed to be particularly effective or ineffective in driving post-deal value or stakeholder alignment?

Concluding questions

26. Based on your experience, what are your recommendations for companies looking to overcome the challenges of integrating ESG into their M&A strategies?
27. How do you see the role of ESG evolving in M&A activities over the next 5-10 years?
28. Is there anything else you would like to add regarding ESG integration in M&A that we haven't covered, or any final thoughts you'd like to share?

9.5 Appendix 5: Thematic Map

RQ	Quotations	Groups	Theme
RQ1	18	Lack of Standardization of ESG metrics and Frameworks	Theme: Lack of Standardization & Framework Fatigue
RQ1	12	Due Diligence -Social Factor Challenges Incorporating ESG	Theme: The Complexity of the Social Pillar
RQ1	9	Reason for Investment - Target Identification	Theme: Culture and Resource Allocation
RQ1	21	Due Diligence -Governance Factor	Theme: Investment Rationale Sub Theme: Governance Pillar as a Critical Enabler
RQ1	17	Due Diligence Risk Mitigation: Risk based DD	Theme: Due Diligence Approach & Data Challenges
RQ1	15	Due Diligence - Environment Factor	Sub Theme: Environmental Pillar
RQ1	19	Valuation	Theme: Valuation Linkage and Negotiation
RQ2	14	Cost Efficiency	Theme: Cost Efficiency
RQ2	11	Risk Mitigation and Deal Protection	Theme: Risk Mitigation and Deal Protection
RQ2	13	Post Merger Management	Theme: Post Merger Management
RQ2	12	Stakeholder Value Creation	Theme: Stakeholder Trust & Social License to Operate
RQ2	11	Employees	Theme: Talent Retention
RQ2	14	Shift to Mandatory Reporting	Theme: Shift to Mandatory Reporting
RQ2	12		